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Current Events

Political Aspects of Regionalism: ASEAN

The Political and Security Aspects of ASEAN:
Its Principal Achievements

Issues in ASEAN Economic Regionalism

Pattern and Development of ASEAN Economic
Cooperation

ASEAN and North-South Trade Issues

Vietnam and ASEAN: The Potential for Economic
Intercourse

Book Reviews



CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES

THE INDONESIAN QUARTERLY

CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES, JAKARTA.

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Contents

Current Events

- Hawke's Visit to Indonesia
Ronald NANGOI 3
- Nakasone's Visit to ASEAN
Endi RUKMO 5
- Thai-Vietnamese Relations and the Cambodian Issue
Asnani USMAN 7

Articles

- Political Aspects of Regionalism: ASEAN
Juwono SUDARSONO 10
- The Political and Security Aspects of ASEAN:
Its Principal Achievements
J. Soedjati DJIWANDONO 19
- Issues in ASEAN Economic Regionalism
Narongchai AKRASANEE 27
- Pattern and Development of ASEAN
Economic Cooperation
Djisman S. SIMANDJUNTAK 48
- ASEAN and North-South Trade Issues
Hadi SOESASTRO 59
- Vietnam and ASEAN:
The Potential for Economic Intercourse
Douglas PIKE 83

Book Reviews
(on the next page)

Book Reviews

What is Indonesia's Foreign Policy? <i>A.R. SUTOPO</i>	100
GOLKAR: Functional Group Politics in Indonesia <i>M. Bambang WALGITO</i>	102
A Reflection on Development <i>Bambang PRAJITNO</i>	104
The Malacca-Singapore Straits <i>Kirdi DIPOYUDO</i>	105

Hawke's Visit to Indonesia

From June 3 to 5, 1983, Australian Prime Minister Bob Hawke paid a visit to Indonesia as part of his world tour. His visit served to emphasize the importance of Indonesia. Before leaving Australia, Hawke had already made it clear that maintaining good relations with Indonesia was in his government's priority list of foreign policy. He said: "It is just out of the question that Australia can move into a position of not having good relations with a country on its immediate doorstep, a country of vast population, economically significant and strategically significant."

Hawke took the initiative to conduct a dialogue with Indonesia so as to reach better understanding of the problem of East Timor. Since he was elected Prime Minister, Hawke has been facing a problem of how he would decide the Australian policy on East Timor because of his Labour Party's resolution on the recognition of the rights of the East Timorese to self-determination and independence; the condemnation and rejection of the Australian government's recognition of Indonesian annexation of East Timor; and opposition to all defence aids to Indonesia until there was a complete withdrawal of "Indonesian occupation forces" from East Timor. The Australian Labour Party, especially its left wing, had increasingly put pressure on Hawke's government to implement the resolution on East Timor as soon as possible.

On the other hand, Hawke is responsible for establishing strong and constructive relations with Indonesia as its closest neighbour. Australia's changing policy on East Timor would endanger those relations. As far as Indonesia is concerned, the East Timorese have already exercised their rights for self determination by integrating themselves into the Republic.

Indeed, the Australia's government had not adopted a firm stand on the East Timor issue. Although Hawke was still concerned that self-determination

in East Timor had not been exercised under international supervision, he showed some positive gesture by stating, that, "Australia acknowledges and wishes to encourage the major efforts of the Indonesian government to improve the condition of the life for the people of East Timor after centuries of colonial misrule and the collapse of the colonial regime." And Australia would be contributing A\$1.5 million to the International Red Cross Humanitarian Relief program and the UNICEF Assistance Program in East Timor.

In the meantime, Mr. Hayden's visit to Jakarta in April had resulted in an agreement with the Indonesian government on a number of points. First, an Associated Press Parliamentary journalist was to be posted in Indonesia. Second, an Australian Parliamentary delegation was to visit Indonesia including East Timor in July. And third, the movement of East Timorese to Australia was to be accomplished. The agreement indicated Indonesia's willingness to improve its relations with Australia.

Thus far Australia has neither implemented the Labour policy nor continued its former government's policy on East Timor. Australia's stand on East Timor will be made clear in the United Nations when and if the question of East Timor should come up again in the coming General Assembly. Hawke assured that the Parliamentary delegation's visit to Indonesia would enable it to proceed with the debate within the Labour Party and the Australian community. He maintained that it was his government's responsibility to make decisions "relevant to the circumstances of the time."

Although the problem was more on how Hawke had to face the domestic pressure to implement the Labour resolution, it was quite clear that Indonesia did not expect Australia to change its previous stand on the issue. Commenting on the statement expressed by Mr. Hawke and Mr. Hayden that an act of self determination had not yet taken place in East Timor, Foreign Minister Mochtar Kusumaatmadja said: "Indonesia cannot be held solely to blame for not holding a full plebiscite in East Timor, because Australia and Portugal refused to get involved in restoring order during the 1975 civil war."

It seems likely that relations between the two countries would worsen, if the Australian government implemented the Labour Party's resolution. This would mean that Australia's interests in the region might be harmed. For its part, Indonesia might be tempted to restrict or even close its territorial waters and air space to Australian ships and flights. *Qantas* already warned its government that it could lose at least A\$160 million (US\$141 million) a year if it were denied use of Indonesian air space. And a hostile relations with Indonesia might cause difficulties for Australia in realizing its regional role in

Southeast Asia because of Indonesia's influential and prominent position in the region.

What is more, ASEAN was strategically and economically important to Australia in view of its geo-strategic position and economic performance. Australia's trade with ASEAN was growing rapidly and should develop even at a greater rate in the next decade or two. And the fundamental strategic reality for Australia was that if an enemy gained naval and air bases in the ASEAN region, Australia could not survive.

Ronald NANGOI

Nakasone's Visit to ASEAN

Prime Minister Yasuhiro Nakasone visited the ASEAN countries and Brunei from April 30 to June 10, 1983. Like most of his predecessors Nakasone realizes the importance of these countries to Japan, especially in terms of its investment in the area, which also serves as a market of its industrial goods, its natural resources supply, and its navigation lane for its energy supply from the Persian Gulf and its trade relations with Western Europe. In conjunction with Nakasone's trip it has been said that the Japanese government regard the promotion of friendly and cooperative relations with these countries as "one of the major pillars of its foreign policy."

Apparently Nakasone's visit had two main purposes. He went to these countries, first of all, to reaffirm the Japanese foreign policy toward the region and seek to establish his own personal relationship of trust and understanding with each of the ASEAN leaders. On the day before his departure, he said that he was determined to faithfully follow the line of his predecessors in carrying out Japan's diplomacy toward these countries.

Secondly it was to overcome existing obstacles. One of them concerns the plan to have the Japanese Navy patrol sealanes within 1,000 nautical miles of the country, which his predecessor Prime Minister Zenko Suzuki had launched in May 1981, when he met President Reagan in Washington. In some circles in Southeast Asia, the plan has aroused suspicions of the reemergence of Japanese militarism.

It seems that during his visit Nakasone succeeded in convincing ASEAN leaders that the plan could never reach any waters of the ASEAN countries. He explained in detail that Japanese Navy would patrol its sealanes within several hundred miles in peace time, and up to 1,000 miles in case of attack as measured from Tokyo and Osaka. He added that Japan has no intention to amend the Japanese Constitution which renounces war as an instrument of national policy.

In Jakarta, his first stop, Nakasone received the most expected response. President Soeharto, who was previously reported as having explicitly expressed concern about the plan, said that Indonesia has no objection to the plan if it would be purely for Japan's security and self-defence. Soeharto's understanding of the plan was important for Nakasone's further success. President Ferdinand Marcos of the Philippines, who is generally considered as ASEAN's most outspoken criticist of Japan, was satisfied with Nakasone's explanation and assurance. Likewise, the other three ASEAN leaders have made no reservations.

Another obstacle is the trade issue. Trade relations between Japan and the ASEAN countries have increased. It is said that ASEAN is steadily developing into one of Japan's most important trading partners with total trade reaching US\$34.3 billion in 1982. The figure accounted for 13 per cent of Japan's world trade. The trade balance, however, still favours Japan. Except Indonesia, an oil exporter, and Malaysia, which have a surplus in trade with Japan, the other three ASEAN countries have suffered trade deficit. Japan seems to understand the problem. Therefore, in his meeting with Soeharto, Nakasone made concessions to increase its 1984 fiscal preferential tariff import ceiling by 50 per cent from the present fiscal year. This policy is clear as part of Japan's program to open its market wider to import goods from these countries.

Although Indonesia has a surplus, there have been anxieties about decreasing oil revenues from its export to Japan. Because of the current world oil glut, Indonesia has been severely hit by the slump in global oil demand. So far Japan has imported more than half of Indonesia's total exports of crude oil. Therefore, in his meeting with Nakasone, Soeharto requested him to give a clear assurance that Japan would continue to purchase Indonesian crude oil. But Nakasone was non-committal to the request. According to him the crude oil trade is being dealt with by Japanese private companies. Nevertheless, he would ask these firms not to reduce their imports from Indonesia.

Japan seems to realize that the stability and prosperity of ASEAN countries are indispensable to Japan and to the peace and development of the region as a whole. In his speech in Kuala Lumpur, Nakasone said that there

can be no prosperity for Japan without the prosperity of the ASEAN countries. In order to help ASEAN, Japan since Suzuki's government has pledged to increase grants for the development of human resources. Continuing this policy, Nakasone would increase loans to the countries by 7 per cent. Indonesia would receive Yen 67.5 billion, Malaysia: Yen 61.00 billion, the Philippines: Yen 65.00 billion, and Thailand: Yen 67.36 billion.

From ASEAN's point of view, Nakasone's trip offered few concrete benefits. Besides financial assistance, politically Japan would continue to support the ASEAN position on the Kampuchean problem. This is, of course, useful for ASEAN's bargaining position especially in the coming United Nations General Assembly. It is most important, however, that Japan's commitments to step up trade relations be carried out in future. In 1977, Premier Fukuda offered a US\$1 billion contribution to ASEAN industrial projects, but little has come out of it.

Endi RUKMO

Thai-Vietnamese Relations and the Cambodian Issue

By mid 1983 there had been new developments relating to the Cambodian Question particularly with regard to Thai-Vietnamese relations. The withdrawal of 15,000 Vietnamese soldiers from Cambodia on May 2, 1983, followed by the willingness of Thailand to visit Hanoi on condition of "the 30 kilometre proposal" has aroused hopes for a possible solution of the Cambodian problem.

The significance of the withdrawal of a small number of Vietnamese troops cannot be separated from previous developments. Just before the Non-aligned Summit Meeting on March 7-12, 1983, Vietnam, Cambodia and Laos had held the Indochina Summit Meeting in Vientiane on February 22-23, 1983, which produced a statement on the withdrawal of a part of the Vietnamese troops from Cambodia. Thereafter, the announcement was repeated by the Vietnamese ambassador, Mai Van Bo, in Paris. Apparently he felt the need to do so to mitigate criticism that might be launched by the participating non-aligned countries on the presence of 150,000 Vietnamese troops in Cambodia.

Besides, the announcement was closely related to ASEAN's diplomatic endeavour to enable Prince Sihanouk to represent Cambodia in the Non-aligned Summit Meeting, at least to have him talk personally in that forum. ASEAN's effort did not succeed and Cambodia's seat remained empty. ASEAN could only prevent the seat being taken by the Heng Samrin regime. It was nonetheless a victory for Vietnam.

Vietnam's success in the diplomatic field was followed by a large-scale attack on the Khmer Rouge defence in Phnom Chat on March 31, 1983. Prior to that, the NLFKP (National Liberation Front of the Khmer People) and Moulinaka troops had been driven off. Apparently this situation urged the Vietnamese to convene a special meeting of the Indochinese Foreign Ministers in Phnom Penh on April 12, 1983, which not only decided on the timing and number of troops to be withdrawn, but also stated that the situation in Cambodia was stable. It seems that by withdrawing a small number of troops, Vietnam was trying to show the increasingly stable position of the Heng Samrin regime on the one hand, and the impotence of the troops of the Democratic Kampuchean government on the other.

These followed Thai Foreign Minister's willingness to visit Hanoi on condition that the Vietnamese troops be withdrawn as far as 30 kilometres from the Thai-Cambodian border ("the 30 kilometre proposal"). This proposal had been in fact put forward by Thailand's Foreign Minister Siddhi during his election campaign in Thailand. Foreign Minister Siddhi had said among other things that if Vietnam withdrew its troops to a certain distance away from Thailand's border, there could be a dialogue between Indochina and ASEAN. It was estimated that 30 kilometres should be within a safe distance from the Vietnamese troops' artillery fire. This proposal then became Thailand's own. It should be added that the proposal was not in response to that of the Zone of Peace suggested earlier by Vietnam.

Before Thailand's idea was put forward, Vietnam had, aside from the proposal mentioned above, suggested discussions with Thailand on all matters of common interests. Such discussions would have nothing to do with either *de facto* or *de jure* recognition of the Heng Samrin regime. This suggestion was turned down by Thailand.

To advance the idea, Foreign Minister Siddhi visited the ASEAN member countries in May and June, 1983. Thailand would like to have its idea supported by the other ASEAN member countries. The countries responded positively to the idea but China (PRC) rejected it. China's Foreign Minister Wu Xueqian, said on June 14 that any proposals for a political solution of the

Cambodian crisis would only make Vietnam conceited unless it was based on the withdrawal of the Vietnamese troops.

On the other hand, even Vietnam did not give a positive response to the proposal. During his visit to Bangkok on June 9, Foreign Minister Nguyen Co Thach did not consider the proposal as a precondition for the Thai Foreign Minister's visit to Hanoi. Vietnam would reject the proposal as a precondition, but would consider it as a matter for negotiations. Vietnam would like to see any proposal leading to the ensuring of peace and security for both sides and would not accept any proposal which would favour one party only.

Such questions were among the topics discussed at the 16th ASEAN Foreign Ministers Meeting in Bangkok on June 24-25, 1983. ASEAN reaffirmed its support for Thailand's "30 kilometre proposal" in an ASEAN joint communique, which is a step towards the solution of the problem of total Vietnamese withdrawal and ultimately the political solution of the Cambodian problem. If the proposal was accepted, ASEAN would support the Thai Foreign Minister's visit to Hanoi.

Because of Vietnam's rejection of the "30 kilometre proposal" on the one hand, and on the other, ASEAN's firm stand on the 30 kilometre proposal as a precondition for Foreign Minister Siddhi's visit to Hanoi, Thailand's idea cannot yet materialize. Nevertheless, a direct Thailand-Vietnam approach could still be on the table and might serve as a breakthrough if both sides were flexible enough in putting forward their proposals.

Asnani USMAN

Political Aspects of Regionalism: ASEAN

Juwono SUDARSONO

When ASEAN was established in 1967, its low-key political tone was considered a virtue. Anxious to avoid any possible stigma of eventually supplanting SEATO as an American-inspired regional arrangement of anti-communist state serving United States interests in Southeast Asia at lower political and military cost, the member-states took it upon themselves to resuscitate earlier efforts at creating regional order which emphasized regional autonomy and self-reliance.

It is worth recalling that the birth and growth of ASEAN in the southern flank of Southeast Asia corresponded with the halting disengagements that characterized American attempts to seek gradual and face-saving withdrawal from the region's northern tier.

The eight year period spanning the February, 1978 Tet offensive through the First ASEAN Summit Meeting in Bali in February, 1976, saw the growing importance and commitment that the United States, Japan and West European countries gave to ASEAN as the commitment and persistence in seeking a non-communist political solution in South Vietnam declined and receded.

In this context, the efforts of ASEAN towards greater regional autonomy and self-reliance implies that the *political* conditions and the policies its member states undertake to a large measure is influenced by the objectives and policies of the United States. Together with Japan, which commands the greatest *economic* presence in the region, the United States continues to play

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a greater and far-reaching role in the developments of the political underpinnings of each ASEAN government. American media content, assisted by pervasive Japanese electronic technology, constitutes an important qualitative dimension in shaping the perceptions, aspirations of every level of society in each of the ASEAN nations.

Since these political, social and cultural interactions -- great power involvement, regional politics and intra-ASEAN relations -- are closely intertwined, it is worth reviewing some of the salient features which has made ASEAN regionalism as much a political as the economic success that has been usually attributed to it.

DIFFERING STRATEGIC PERSPECTIVES

Despite the anti-communist orientation of all of the ASEAN states, differing strategic perspectives emanating from each of the association's constituent members have resulted in differences in the interpretation of ASEAN's external outlook. The absence of a common strategic outlook may not necessarily have adverse affects on economic regionalism, but can result in varying degree of commitment to particular political (and, consequently, economic) decisions.

To the extent that all of the ASEAN states are committed to a non-communist form of national development, all of them view with suspicion and fear the ideologies and policies of China, the Soviet Union and (since 1975) the Indo-Chinese states.

To the extent that the ASEAN states are *de facto* proteges of United States nuclear and conventional military preponderance in the Western Pacific, the ASEAN states collectively constitute a *de facto* forward base in the overall defense posture of the Western powers and Japan in the region.

Despite differing views on the extent as well as content of the United States security guarantee throughout the post-1967 period, most ASEAN member-states have preferred that their constituent and collective security be based on an essentially *external* guarantee, rather than rely on a scheduled plan leading to an institutionalized autonomous security arrangement.

In sum, ASEAN constitutes a common degree of collective security arrangement without having to bear its formal trappings. For Indonesia, it provided a security front over its Western and Northern borders, as well as providing opportunity for the Indonesian state apparatus and society as a whole

to embark on a large-scale international venture. For the other ASEAN states, which in 1967 and until today are more sanguine in their relationships with Western powers, ASEAN forms a continuation of Anglo-American hegemony of the immediate post-war period.

The somewhat loose strategic outlook allowed for fundamental differences in the *future* course affecting ASEAN's long-term strategic objectives. The Indonesian strategic perspective in regard to great power involvement to date remains heavily influenced by internal economic reconstruction considerations. To the extent that Indonesia is the largest and most populous state but by the same token its weakest economic entity, the ASEAN format of external guarantee by the United States and economic support by Japan coincides with its current priorities as well as its medium-term goals.

The trauma of external Communist subversion, infiltration and sabotage wreaking havoc on Indonesian political and economic institutions have forced the Indonesians to accept the current dependence on the American-Japanese nexus. Particularly after 1970, when regular exchanges of information, intelligence and field experience were instituted, the ASEAN format reinforced the Indonesian leadership's view of safeguarding Indonesia's immediate environment from possible use as staging areas for hostile forces.

At the same time, officials at the foreign and defense ministries, all of whom had experienced their formative professional careers under the guided democracy of President Soekarno, were aware that overt dependence on one party of the superpower competition conflicted with one of its more important foreign policy principles: independence and non-alignment.

In broad strategic terms, therefore, whereas Indonesia generally views the current power balance in the regions as a temporary and expedient arrangement, the other ASEAN states remain committed to some degree of *extra-regional* link as a basis to secure its respective individual security interests. This is one of the more important reasons that in the Bangkok Declaration of August, 1967 the member-states reaffirmed their right to preserve their own national identity along with the formulation that foreign military bases in the region were temporary in nature. Stripped of its diplomatic language, the ASEAN states were not keen on constructing an over-arching political and military structure to reinforce their commitment to economic regionalism.

For the Indonesians, the pre-occupation with internal economic reconstruction, however laudable in terms of rational economic policy making, had to be continually balanced against its long-term regional political aspirations. In effect, the ASEAN format could not dispel lingering notions within the na-

tion that the "neo-imperialists" were back in a different form, and that the economic assistance provided by official aid consortium constituted a restraining as much as a facilitating factor to its regional role.

The thrust of Indonesia's strategic outlook, therefore, confronts its leadership with the perennial problem of seeking a more independent and balanced *political* outlook, to eventually offset its dependence on an economic development relying on conventional notions of modernization. Thus, while welcoming dialogue and consultations with third party (e.g. ASEAN-US, ASEAN-Japan, ASEAN-Australia) nations or groupings on matters relating to investment, trade and energy policies, perhaps Indonesia alone among the ASEAN states harbors feelings for a more equi-distant political relations with the Soviet bloc.

In sum, the strategic power nexus in Southeast Asia constitute an important dimension in its long-term calculations in respect of the place of ASEAN in attempting to reconcile two conflicting aspirations.

So long as Indonesia remains internally weak in economic terms and externally dependent on aid, concessions and markets, ASEAN performs a useful, if necessary, function. On the other hand, Indonesia is also aware that to the extent that its future role depends on continued political and economic support from the United States and Japan, the reservation rests on the premise that the two great power's perception of Indonesia's appropriate role may not correspond at all with the notions held by the Indonesians.

THE REGIONAL DIMENSION

Regionalism as originally conceived was based on three mutually reinforcing notions: political convergence, geographical proximity and economic functionalism. Taken further, the principles of comparative advantage and complementarity envisaged gradual harmonizing of interests based on an accepted division of labor among participating parties, leading to greater specialization, mutual reinforcement and, finally, political and economic integration.

Unlike the European Community, ASEAN was not conceived with eventual political or economic integration as a final goal. The Bangkok Declaration of August 1967, reaffirmed each individual member's right to retain their separate identities, political sovereignty and, importantly, their respective economic ties with extra-regional powers.

Nowhere is the disparity between political aspiration and economic capability more apparent than in the case of Indonesia. Unlike the other ASEAN states, Indonesia is the currently most understaffed and ill-prepared to embark on a region-wide cooperative endeavor.

Thailand and the Philippines have a more comprehensive and innovative approach in terms of opening up new vistas in investments, trade, manufacturing and marketing opportunities. Singapore's more global oriented business links, reinforced by a competent administrative and financial infra-structure, places it in an entirely different economic league. To the extent that Malaysia is sensitive to external pressures impinging on domestic political balance, Malaysia often resembles Indonesia's predicament of having to adopt more selective approaches in opening up the domestic economy.

To be sure, different political styles and priorities reflect in large measure the differences in national philosophies, level of economic development and the degree to which ends local business culture supports region-wide notions of planning, compromising and policy executing.

ASEAN was also more reactive than innovative in undertaking measures in response to changes in the regional environment. In November, 1971, its first political platform was announced with the enunciation of the Zone of Peace, Freedom and Neutrality concept. This was a response to the changing strategic balance brought about by the Kissinger visit to Beijing in five months previously, which was seen to have direct bearing on the character of regional order as conceived from Southeast Asia.

It was not until mid-1975 that a new sense of urgency, brought about by the victories of Communist forces in Cambodia and South Vietnam, that the ASEAN states felt the need to take comprehensive steps in economic cooperation if national and regional resilience were to be given more substance. The ASEAN alternative was given further impetus by yet another externally induced political pressure from Indo-China.

Nevertheless, the political challenge and commitments made at the Bali Summit of February, 1976, did not constitute a sufficient pressure for the ASEAN states to embark on a more integrative approach. The Declaration of ASEAN Concord merely affirmed the member-states' commitment that the ability of each individual state was essential to the stability of the association as a whole. Economic cooperation was given more substance than was taken in Bangkok in 1967 through the stipulation of increased inter-state coordination in matters affecting food and energy policies, industrial cooperation ("to meet regional requirements of essential commodities") and in trade. For the

first time, improvement in synchronizing economic policies were adopted with the agreement to hold ministerial meetings of economic ministers in order to facilitate exchange of views and consultations on national development plans.

Following the Bali Summit, therefore, there were three main policy forums for ASEAN regionalism: the ministerial meeting of foreign ministers, which defined ASEAN common political stand at a particular junction in time; the meeting of economic ministers, which emphasized practical applications of agreed joint economic policies, and the ASEAN Secretariat.

However, the inertia of past bureaucratic procedures constricted the initiatives that had been adopted at the Bali Summit. Despite the inauguration of the ASEAN Secretariat in June, 1976, and the subsequent installation of its headquarters in Jakarta in May, 1981, basic differences in outlook and national priorities resulted in halting efforts at the implementation stage.

The summit had allowed for a meeting of heads of states which provide guidelines towards improving ASEAN economic cooperation. But since the political and economic ministerial meetings were kept separate and the Secretariat left with the day-to-day tasks of facilitating and monitoring progress in the two main areas, the task of translating the new political commitments into economic practicalities was generally left to individual sectoral responsibilities.

These problems became more apparent after the second ASEAN Summit in August, 1977. Prime Minister Fukuda of Japan had pledged US\$ 1 billion to assist ASEAN implement an association-wide scheme involving complementary industrial projects. To date, however, because of cost considerations but also because of political expediencies, only the urea fertilizer project in Indonesia has started on schedule and has high probability of completion by early 1984.

In summary, despite periodic spurts brought about to the member-states, the outcome has by and large shown that the preferred approach to regionalism within ASEAN has essentially been to piece-meal, pragmatic and cautious collaboration, reflecting the deference the more economically advanced nations tended to the more cumbersome economic problems faced by the largest of the association's members. Despite wide-spread recognition that Indonesia constituted the most important political member, the ASEAN states have yet to agree on the nature of leadership required to mobilize policies and implement economic programs.

INTRA-ASEAN RELATIONS

ASEAN regionalism had been conceived to promote cumulative cooperative ventures in the economic and social-political fields leading to greater capacity by the governments and societies of the association to promote national and regional resilience.

Each ASEAN member state naturally has to confront its diverse internal political and economic problems. As such the manner of their resolutions falls within the jurisdiction of each nation. Nevertheless, to the extent that some of these problems possess bilateral as well as multilateral dimensions, several of the issues confronting each member have direct bearing on the attention (and expenditure) of government expenditure in attempting to solve them.

The resident Chinese issue is perhaps central to the current Indonesian government's problem in devising goals and utilizing ends to complement its national development plans with its region-wide aspiration. Indigenous Indonesians recognize that the entrepreneurial skills and talents of their local Chinese residents constitute one of the more important "invisibles" capable of being harnessed to support and strengthen inter-governmental economic and trade preferential agreements. With their extensive links to the business sectors in other ASEAN countries, the resident Chinese's role in buttressing Indonesia's long-term economic strength within ASEAN is perhaps one of the most under-utilized assets currently neglected by the Indonesian government.

The Indonesian government's own record in speeding ways and means to bring about greater political participation of the resident Chinese is rather mixed. After neglecting the 1 million non-citizens living in Indonesia, the government in late 1979 adopted policies designed to expedite formal application procedures for citizenship application. One reason for the new policy was the lingering fear that as non-committed residents in an alien country, the local Chinese would be susceptible to political manipulation by the Chinese government in Beijing. As a result of the opening of the Indonesian economy to wider international contacts after 1967, resident Chinese in Indonesia tended to secure a majority of local credit made available in the private sector.

Similarly in Malaysia, the dominance of the resident Chinese is partially reflected by the fact that foreign firms tended to prefer to work with Chinese partners because of their extensive regional network, entrepreneurial skills, strong work ethic and capacity for openness to innovation. The current Malaysian government has pledged that by the end of the 1980s, fully 30 per cent of equity capital in businesses will be owned by Malays, a target viewed with pessimism by some observers but which in any event will reflect on the ability

and commitment of the Malaysian nation as a whole to strengthening their own economy within the context of ASEAN regionalism.

Given the pattern of government-sponsored policies designed to discriminate in favor of local indigenous enterprises, it is conceivable that the measures can up to a point result in adverse political consequences within Indonesia and Malaysia. If pushed too far and too quickly, the loss of opportunity provided by the potential use of resident Chinese not only in mobilizing domestic economic programs but also in terms of pushing through ASEAN-wide complementation schemes may prove to be immeasurable.

Thailand, Malaysia and the Philippines share differing aspects of internal dissent and insurgencies that affect relationships among them and the other member-states. Increasingly, there has been awareness in Bangkok, Kuala Lumpur and Manila that their urban based modern sectors must drastically transfer more of their government's and private sector's resources to assist in surmounting problems of unemployment and lower standards of living in their respective provincial areas.

A more equitable and decentralized form of local administration is seen as a key factor in alleviating grievances in the border and ethnic minority areas. Currently, the former contains important political implications in regard to the ability of the central government in Bangkok to withstand political and economic pressure arising from the redistribution of power in Cambodia following the Vietnamese invasion of that country in late 1978. The latter problem poses special cases to the government in Kuala Lumpur and Bangkok, since both are anxious that the ethnic, ideological and religious dimensions constitute important test-cases of bilateral joint-commitment to bring about social development of their low-income and predominantly rural populations.

CONCLUSIONS

Viewed separately, the political issues affecting economic regionalism within ASEAN constitute formidable problems which will continually tax the conceptual as well as practical competence of the governments concerned. Together, the issues often have direct cross-cutting ramification which in turn require greater political commitment through the ASEAN membership's collective will and ability.

The problems are compounded by the fact that in two of the ASEAN states (Indonesia and the Philippines), the question of orderly political succession at the national level is as yet to be resolved in the five year period ahead. To date,

the case of Thailand and Malaysia favors a more orderly, if halting, trend toward institutionalized change, whilst Singapore shows the most promising prospect.

Faced with the prospects of continuing lack of a common strategic outlook, intractable regional problems as well as inchoate domestic political difficulties, the search toward greater political synchronization among the ASEAN states, remains formidable.

The Political and Security Aspects of ASEAN: Its Principal Achievements

J. Soedjati DJIWANDONO

In the absence of a definite set of criteria, one's assessment of ASEAN's achievements will largely be determined by one's expectations. These expectations will, in turn, be determined by one's perception of what ASEAN is all about. Perceptions of ASEAN, however, may vary. The Bangkok Declaration itself, which marked the birth of ASEAN on 8 August 1967 merely affirms "the establishment of an Association for Regional Cooperation among the countries of South-East Asia to be known as the Association of South-East Asian Nations (ASEAN)."¹ It neither emphasizes, nor focuses on, any specific field of cooperation. The aims and purposes of the Association as spelled out in the Declaration do cover a wide range of activities. Yet interestingly, no mention is made of cooperation in either political or security field. What follows, however, is to argue not only that ASEAN was motivated by primarily political and security considerations, but that it is basically a political and security cooperation. It is therefore in these fields, above all, that ASEAN's principal achievements must be assessed.

POLITICAL AND SECURITY CONSIDERATIONS

If never explicitly stated, the establishment of ASEAN could not be separated from the end of Indonesia's policy of confrontation against Malaysia. It

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¹All quotations from ASEAN documents in this paper are taken from *ASEAN Documents* (Jakarta: ASEAN National Secretariat, Department of Foreign Affairs, Republic of Indonesia, n.d.).

can be argued that the establishment of ASEAN at the initiative of Indonesia served as evidence and assurance of its good faith and determination to bring an end to its confrontation policy and to pursue, instead, a good-neighbour policy. The fact that, apart from other, primarily domestic considerations, particularly as far as Indonesia was concerned,² an exchange of diplomatic representations between Malaysia and Indonesia was effected after, not before, the establishment of ASEAN, had more than symbolic significance. It was a reflection of Indonesia's commitment to its new, peaceful policy.

It goes without saying that as for the other member nations of ASEAN, especially Malaysia and Singapore, which had been the targets of its policy of confrontation, Indonesia's membership in ASEAN would reduce the possibility of threat to their security posed by their giant neighbour. In other words, within ASEAN Indonesia would be rendered less harmful and less "dangerous" than outside of it. Indeed, on the face of it, Indonesia would appear to be placed in what amounts to a "hostage" position, albeit in a "golden cage." It seems fair to say, however, that it is within ASEAN that Indonesia might be provided with an opportunity to realize its ambitions, if any, to occupy a position of primacy or *primus inter pares* without recourse to a policy of confrontation, if only on account of its sheer size in terms of its territory, population, as well as natural resources.

The formation of ASEAN was made possible, indeed motivated, not only by the shift in Indonesia's foreign policy practice from confrontation to good-neighbourliness. It was also facilitated by Indonesia's almost abrupt change from its close alignment with the communist bloc, first with the Soviet Union and then with the PRC, to a somewhat pro-Western stance in its foreign policy. On both accounts, the shift was a reflection of a drastic change in the domestic political scene in Indonesia towards a strongly anti-communist outlook as a result of the abortive communist *coup* attempt in 1965. The commonality of political attitude and ideological orientation, which were non-communist, if not anti-communist, among the five member nations of ASEAN, has clearly been an important uniting factor of the Association.

Considerations of security for its five member nations were also paramount in the motivation of the establishment of ASEAN. The Bangkok Declaration clearly states that the five member countries "are determined to ensure their stability and security from external interference in any form or

²See Franklin B. Weinstein, *Indonesia Abandons Confrontation: An Inquiry into the Functions of Indonesian Foreign Policy*, Interim Report Series (Ithaca, New York: Modern Indonesia Project, Southeast Asia Program, Department of Asian Studies, Cornell University, 1969), pp. 79-88.

manifestation ... etc.” Regional conflicts, such as confrontation between Malaysia and Indonesia in the recent past, proved to have invited outside interference. So did the conflict in Indochina, which was then full of uncertainty as to its outcome. By uniting in the regional cooperation of ASEAN and attempting to overcome conflicts among themselves, especially in view of the uncertainties in Indochina, the five member nations undertook to prevent the possibility of foreign interference that might threaten their security.

POLITICAL AND SECURITY COOPERATION

In the light of the primary considerations for its establishment, one might argue that ASEAN is essentially a political and security regional cooperation. The main purpose is to prevent, to contain, and by peaceful means to solve intra-regional conflicts, so that by their solidarity and unity the five member nations may be able to prevent the possibility of foreign interference that might threaten their security, integrity, and sovereignty.

It is in order to attain that primary goal that various forms of cooperation in various fields have been determined to be carried out within the framework of ASEAN. As stated in the Bangkok Declaration, the aim to “accelerate economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership” was in order to “strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations.” In other words, the forms of cooperation in various fields as spelled out in detail in the Bangkok Declaration are aimed at supporting the final cause of ASEAN, which is basically political in nature and security-oriented.

It is interesting to note that nonetheless such a goal is not stated in explicit terms in the Bangkok Declaration. Indeed, in the first few years since the establishment of ASEAN the existence of political and security cooperation in the framework of ASEAN was almost always denied. The impression was in fact created as though the political and security aspects of ASEAN were not issues to be discussed in public. In the mean time, while cooperation in the security field was -- and so far has been -- promoted mainly outside the ASEAN framework, be it on a bilateral or multilateral basis, political problems of common concern among the member nations were usually discussed not in the annual meetings of ASEAN foreign ministers but in the so-called informal or special meetings which often followed after the formal ones.³ A case

³See J. Soedjati Djiwandono, “Indonesia’s Relations with Other Southeast Asian Countries,” in *Southeast Asia in Transition: Regional & International Politics*, ed. Jae Kyu Park & Melvin Kurtov (Seoul, Korea: The Institute for Far Eastern Studies, Kyung Nam University, 1977), pp. 163-164.

in point was the special meeting of ASEAN foreign ministers held in Kuala Lumpur in November 1971, which resulted in the issuance of the Kuala Lumpur Declaration on the neutralization of Southeast Asia. Another was the Kuala Lumpur meeting of February 1973 on the Indochina problem after the signing of the Paris Agreement in the previous month.

One reason for avoiding the image of ASEAN as a political, let alone security, regional cooperation was perhaps to prevent suspicions on the part of outside powers that ASEAN was a collusion among non-communist nations of Southeast Asia against the communist forces in Indochina. And the lack of security cooperation within the framework of ASEAN was necessary to avoid the impression as if the Association was to be a military pack after the model of SEATO, which was anti-communist and backed by the military might of the United States. Political and security fields were sensitive issues, while economic, social, cultural, technical and educational fields were more neutral. It was therefore in these last areas, which were less likely to arouse suspicions, that cooperation within the framework of ASEAN could be promoted openly.

It is interesting to note, however, that unlike the EEC, for instance, which, despite its ultimate political goal, began with a project of cooperation in the economic field, the ASEAN member countries began with political and security considerations, made political decisions, and only then decided on projects of cooperation in the economic and socio-cultural fields. In point of fact, economic projects within the framework of ASEAN were only agreed upon at the Bali Summit in 1976. Still, most of these projects have been unsuccessful.

In that sense the Bali Summit was a turning-point in the life of ASEAN. But more significantly, the Bali Summit was a turning-point in that on that occasion, for the first time, openly and officially ASEAN confirmed cooperation in the political field, which until then had in fact been fostered, albeit informally.⁴ In the Declaration of ASEAN Concord, the member countries "undertake to consolidate the achievements of ASEAN and expand ASEAN cooperation in the economic, social, cultural and political fields." Moreover, the first part of the programme of action as a framework for ASEAN cooperation adopted by the Bali Summit consists of a seven-point programme of action explicitly in the political field. In consequence, there was no longer need for a distinction between formal and informal meetings to avoid political cooperation within the ASEAN framework.

⁴See also, *idem.*, "The ASEAN After the Bali Summit," *The Indonesian Quarterly*, Vol. IV, No. 2, 3, 4 (special issue, 1976), pp. 3-19.

THE SIGNIFICANCE OF POLITICAL COOPERATION

It is true that in many cases political cooperation in the ASEAN framework has been more in the nature of reaction of external challenges than initiatives on the part of ASEAN.⁵ As suggested earlier on, the establishment of ASEAN itself was a response to political developments in the region of Southeast Asia. Likewise, the idea of neutralization for Southeast Asia as enunciated in the Kuala Lumpur Declaration of 1971 was a response to challenges from outside ASEAN, particularly in relation to the plan of the British Labour Government to withdraw the British Forces from East of Suez, the uncertainties in the Indochinese conflict, and the enunciation of the Nixon Doctrine.

The Bali Summit, the first of its kind among the ASEAN member countries, was in part also a reaction to the victory of the communist forces in Indochina. ASEAN's common diplomatic stands and views in recent years on a number of regional and international problems have been developed in response to such developments as the Soviet invasion of Afghanistan in 1979, the Vietnamese invasion of Kampuchea in 1978, the Chinese attacks on Vietnam, and the Vietnamese encroachment on Thai territory along the Thai-Kampuchean border.

Such a development in the political cooperation of ASEAN, however, does not necessarily imply a weakness. Moreover, in the development of common views and common stands of ASEAN in response to external challenges contains in itself an element of initiative and further encourages new initiatives. Indeed, as a newly developing force, ASEAN may still be unable to make decisions or to take initiatives that affect international relations in a meaningful sense. Nevertheless, its reaction to external challenges does contain positive elements that may serve to reinforce the strength and help to advance the cause of ASEAN.

First, external challenges have helped to promote ASEAN solidarity because of the development of common views and common stands. This is in part a realization of the programme of action in the political field as adopted in the Declaration of ASEAN Concord for the "strengthening of political solidarity by promoting the harmonization of views, coordinating position and, where possible and desirable, taking common actions."

Second, such external challenges have encouraged the promotion of mutual consultations within ASEAN at various levels for the purpose of attaining those objectives. In other words, within ASEAN at least a trend seems to have developed towards the institutionalization of regular, intensive and continuous interaction and intercommunication among its member countries.

⁵See Russel H. Fifield, "ASEAN: The Perils of Viability," *Contemporary Southeast Asia*, Vol. 2/3, December 1980, pp. 199-212.

Third, the trend towards the institutionalization of interaction and inter-communication as well as common interest in the promotion of solidarity among the member countries of ASEAN have both helped to iron out differences and even to neutralize conflicts among them. Indeed, as stated in the Declaration of ASEAN Concord, "settlement of intra-regional disputes by peaceful means as soon as possible" forms part of the programme of action in the political field adopted by the Bali Summit. In addition, the Treaty of Amity and Cooperation in Southeast Asia, which was also signed at the Bali Summit, constitutes, among other things, an attempt to create a mechanism for the peaceful settlement of intra-regional disputes. However, that mechanism has not functioned or been made use of effectively for the settlement of such conflicts.

Nevertheless, in the mean time the last two factors mentioned above have at least helped not only to neutralize intra-regional conflicts but also to prevent the emergence of new such conflicts. Of even greater importance, given the fact that the kind of mechanism that has been created is as yet unable to settle intra-regional conflicts peacefully as originally expected, such factors will help prevent or at least reduce the possibility of resort to force or violence for the settlement of such conflicts.

Thus it can be argued that a trend seems to have developed within ASEAN towards the establishment of some form of a "security community,"⁶ in which expectations of the use of force for the settlement of conflicts among its member nations are so remote and unthinkable that they are almost entirely eliminated. It is obvious that a security community is not a security or military pact, which is never the intention of ASEAN to create.

Fourth, with the development of a trend towards the institutionalization of intensive interaction and inter-communication among its member nations, and thus towards a security community, ASEAN has also succeeded in giving substance to the concept of "regional" cooperation as affirmed in the Bangkok Declaration. It is often doubted if Southeast Asia can be treated as a region on the ground that it does not consist of "a geographically proximate

⁶On the concept of "security community," see Karl W. Deutsch, *et al.*, *Political Community and the North Atlantic Area* (Princeton: Princeton University Press, 1957); it has been argued that ASEAN cannot form even a regional "core," which is important in the establishment of a security community, because it is not identical with the region of Southeast Asia as a whole; see Richard W. Mansbach, "Southeast Asia in the Global Political System," in *Southeast Asia in Transition*, p. 17; on the other hand, one scholar has put it that "At the lowest level of political integration ASEAN already is ... a 'security community';" see Donald E. Weatherbee, "ASEAN Regionalism: The Salient Dimension," a paper presented at the Second U.S.-ASEAN Conference on Economic Development and Political Stability: Alternative Scenarios for the 1980s (Berkeley, California, May 2-4, 1983), p. 11.

set of states characterized by intensive intercourse and socio-cultural homogeneity.”⁷ Indeed, the long years of colonial domination had prevented such intensive intercourse among the various nations of Southeast Asia that have gone through colonial experience. On the contrary, the external relations of such countries during the colonial period were more of a bilateral nature with their respective metropolitan states than among themselves.

With the development of such trends as described above, however, one might argue that ASEAN has in fact formed a region or an international sub-system of its own, if not comprising the whole of what is now commonly known as Southeast Asia, at least a part of it. Of course, the ASEAN member countries are not characterized by socio-cultural homogeneity. In fact, one can hardly find such homogeneity even within each of the ASEAN member countries. But socio-cultural homogeneity does not necessarily constitute a condition for the establishment of a region or a regional community as an international sub-system. The international system or international society that has been brought about by the intensive and continuous interaction between the sovereign nation-states is not characterized by such homogeneity, either.

It does not follow, however, that ASEAN is heading toward a regional integration in the sense of a supra-national organization with a supra-national government. The member countries of ASEAN, most of which are newly independent nations, are jealous of their independence and remain sensitive to, and suspicious of, any possible sign of encroachment on their sovereignty. And there has never been any indication whatsoever that any one of them is prepared to surrender any part of its sovereignty to any kind of super-national authority. Nor is there any supra-national institution within ASEAN. Its institutions of regional cooperation are manned by national representatives with no powers beyond the limits authorized by their respective governments.

Indeed, the behaviour of the member nations within ASEAN forms part of their respective foreign policies to serve their own diverse national interests. A combination of national interests does not necessarily lead to the development of regional interests. Nonetheless, at some points and to some extent certain national interests of the ASEAN member countries may converge and constitute common interests. This helps to make regional cooperation possible. However, that ASEAN does not aim at regional integration in the sense described above is also clear from the Bangkok Declaration, which says that

⁷Mansbach, “Southeast Asia in the Global Political System,” p. 16. For a discussion on the geography of Southeast Asia, see Charles A. Fisher, “Geographical Continuity and Political Change in Southeast Asia,” in *Conflict and Stability in Southeast Asia*, ed. by Mark W. Zacher and R. Stephen Milne (Garden City, New York: Anchor Press/Doubleday, 1974), pp. 3-44.

the member countries are determined to ensure their security from foreign interference "in order to preserve their national identities in accordance with the ideals and aspirations of their peoples."

CONCLUSION

An evaluation of ASEAN's principal achievements should be made in the light of the basic motivation and the main purpose of its establishment, both of which are rooted in political and security considerations. In that light ASEAN is essentially a political and security regional cooperation. Cooperation in the economic and socio-cultural fields serve mainly as intermediate objectives to promote the achievement of its basic goals.

The promotion of cooperation in the political field has led to the development of a trend not only towards the institution of ASEAN as a region of its own, if not an integration, but also, more importantly, towards the establishment of some kind of security community. This development will help secure the member nations of ASEAN against possible threats of foreign penetration and interference. It may be considered as constituting a step towards the idea of the neutralization of Southeast Asia. It means that ASEAN has been able to provide greater security for its member nations.

The development of such trends may be regarded as ASEAN's principal achievement. The problem now is whether such trends can be sustained and fostered without dependence on, or, indeed, in spite of, external challenges; whether ASEAN can continue to overcome or at least contain national as well as intra-regional conflicts and prevent the use of force in such conflicts, especially those that have an international dimension or a link with outside forces. Without projecting the developments within ASEAN onto the whole region of Southeast Asia in the wider sense of the word, which continues to be afflicted with conflicts that are full of uncertainty as to their final solution, ASEAN will already be hard put to face such a challenge in the years ahead.

Issues in ASEAN Economic Regionalism

Narongchai AKRASANEE

INTRODUCTION

This paper is concerned with economic regionalism of the Association of Southeast Asian Nations (ASEAN). Economic regionalism is defined as a degree to which ASEAN is pursuing regional economic cooperation for national as well as regional interests. The paper has two main objectives: one is to assess the degree of economic regionalism including its future trend; another is to analyze the implications as well as identify policy issues on ASEAN internal development, and ASEAN external relations.

The first record of ASEAN economic regionalism was the issuance of the Declaration of ASEAN Concord in February, 1976.¹ The paper begins with a summary of the ASEAN Concord. Since then mechanism in various forms has been set up to promote economic cooperation including the five economic committees and other task force and agreements. In pursuit of economic regionalism ASEAN activities have since proliferated. But the measurable outcome has not corresponded closely to the number of ASEAN activities. The paper intends to make an assessment of the ASEAN achievement in economic cooperation as well as to analyze reasons for such achievement record. Economic regionalism can then be assessed for the record of achievement and also identified as a factor affecting the achievement.

ASEAN economic regionalism, in degree as well as in form, will have effects on the internal development of ASEAN individually and as a group, and on ASEAN external relations. In the following it will be shown that ASEAN

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¹"Declaration of ASEAN Concord" in Association of Southeast Asian Nations, *Ten Years ASEAN*, ASEAN Secretariat, Jakarta, Indonesia, August 1978, pp. 111-116.

economic regionalism is stronger in its external relations than in intra-ASEAN cooperation. Thus ASEAN economic regionalism will be in the form of its joint effort in securing a larger market and better terms for exports rather than in establishing customs union or free trade area vis-a-vis the non-ASEAN countries.

Such an approach towards regional cooperation is based on the principle of common interest, i.e. reliance upon export as a main source of development. It is likely that the common economic interest of ASEAN will continue to be on export to areas mostly outside ASEAN, while the intra-ASEAN transactions will be allowed to gradually develop. Thus ASEAN economic partners particularly the United States, Japan and the EEC should recognize this reality of ASEAN economic cooperation. A number of policy issues which follow from the analysis will be discussed in the paper. Briefly what is now seen is the growing sense of economic regionalism, but the effort will be on external relations. For intra-ASEAN activities the effort for the time being will be on institution building to facilitate a more effective cooperation in the future. In these efforts ASEAN will seek cooperation and assistance from its more developed economic partners such as the United States and Japan. The paper concludes by pointing out that it will be of interest to the United States and Japan to assist ASEAN in this process. Allowing more market access for ASEAN goods is crucial to the long-term development of ASEAN which, in turn, would benefit the economic partners. The assistance to ASEAN in institution building will also strengthen ASEAN, which can then remain as a major stabilization factor in the Asia-Pacific region.

COMMITMENT TO ECONOMIC COOPERATION

While ASEAN regionalism could be said to have begun with the formation of ASEAN in 1967 the real commitment to regional cooperation especially in economic areas actually started after the Summit of ASEAN Heads of Government in Bali, Indonesia, in February 1976 (henceforth referred to as the Bali Summit). At this Summit Meeting the following major events which has implications on economic cooperation took place:²

- The signing of the Declaration of ASEAN Concord;
- The establishment event of the ASEAN Secretariat in Jakarta, with an economic bureau;
- The streamlining of ASEAN economic committees to promote economic cooperation;
- The assignment to a particular country to represent ASEAN in its dialogue with third countries.

²Ten Years ASEAN, *ibid.*

The series of events listed above could not have come about without a certain degree of economic regionalism. We review below the nature of the commitment in terms of its objectives and mechanism set up to achieve them.

OBJECTIVES

The main objectives to ASEAN in economic areas since the time of its inception have been to promote "... prosperity and the welfare of the peoples of member states." These objectives are elaborated in the Declaration of ASEAN Concord as follows:³

- The elimination of poverty, hunger, disease and illiteracy is a primary concern of member states. *They shall therefore intensify cooperation in economic and social development, with particular emphasis on the promotion of social justice and on the improvement of the living standards of their peoples.*
- Member states shall take *cooperative action in their national and regional development programmes*, utilizing as far as possible the resources available in the ASEAN region *to broaden the complementarity of their respective economies.*
- Member states shall *strive, individually and collectively* to create conditions conducive to the promotion of peaceful cooperation among the nations of Southeast Asia *on the basis of mutual respect and mutual benefit.*
- Member states shall vigorously develop an awareness of regional identity and exert all efforts to create a strong *ASEAN community*, respected by all and respecting all nations on the basis of mutually advantageous relationships, and in accordance with the principles of self-determination, *sovereign equality* and non-interference in the internal affairs of nations.

The objectives as spelled out in the ASEAN Concord suggest that the member countries intend to promote economic growth and development in their respective countries by means of cooperation among themselves, on the basis of mutual benefit and sovereign equality. In other words economic cooperation is used as a means towards an end, which is economic progress in individual member countries. These objectives are also repeated in the Treaty of Amity and Cooperation in Southeast Asia signed at the Bali Summit.⁴ Economic regionalism underlining such objectives is to the extent that the

³Declaration of ASEAN Concord, in ASEAN, *Ten Years ASEAN*, *op. cit.*, pp. 111.

⁴Treaty of Amity and Cooperation in Southeast Asia, in ASEAN, *Ten Years ASEAN*, *ibid.*, pp. 119-120.

member countries felt they had enough common interest such that cooperation could be put to their mutual benefit. The schemes which were introduced at that time and their subsequent record of achievement also reflect the extent of economic regionalism of ASEAN.

INSTRUMENTS AND MECHANISM

The ASEAN Concord officially established *modus operandi* for sub-regional cooperation in all areas including economics. Four major areas of economic cooperation were spelt out in the ASEAN Concord, i.e.:

- Cooperation in basic commodities, particularly food and energy;
- Industrial cooperation;
- Cooperation in trade; and
- Joint approach to international commodity problems.

In addition the ASEAN Concord established the Meeting of ASEAN Economic Ministers as the highest institution to implement economic cooperation programmes, and the ASEAN Secretariat to facilitate all aspects of cooperation.

Subsequent to the ASEAN Concord ASEAN continued to develop and refine instruments and mechanism for economic cooperation. These are summarized by area below.

Instruments Industry, Minerals and Energy

ASEAN agreed to cooperate in the establishment of large-scale industrial plants to produce essential commodities particularly to meet regional requirements. The instrument is known as the ASEAN Industrial Project (AIP), whereby a project is allocated to a member country. In addition an ASEAN Industrial Complementation scheme (AIC) was introduced to promote exchange of industrial products among the member countries in order to allow for an economic scale of production. Finally in 1982 ASEAN introduced another instrument known as ASEAN Industrial Joint Venture (AIJV) to promote joint investment among the private sectors of the member countries.

For energy ASEAN has agreed to accord priority to the supply of the individual country's needs in critical circumstances, and priority to the acquisition of exports from member states.

Trade and Tourism

The instrument to promote intra-ASEAN trade is known as Preferential Trading Arrangements (PTA), which include preferential tariffs, long-term quantity contracts, preferential terms for the financing of imports, preferential procurement by government agencies, and the liberalization of non-tariff barriers.⁵ PTAs are intended to promote intra-ASEAN trade in basic commodities as well as industrial products. They are, therefore, complementary to the instruments in industrial cooperation and cooperation in basic commodities.

Cooperation in trade includes trade with non-ASEAN countries. The instrument used for this purpose is part of the dialogue with Third Countries, to be discussed below.

ASEAN has also agreed to cooperate in the areas of tourism but instruments used are not specific.

Food, Agriculture and Forestry

Apart from agreeing to accord priority to member countries in food trade, a food security reserve scheme has been set up to provide food security to the member countries. Other instruments for cooperation in food and forestry are cooperation in the supply and procurement of fertilizer and pesticides; ASEAN Common Agricultural Policy (ACAP); common stand on international agricultural matters, and cooperation in the fields of fisheries and forestry.

Transportation and Communications

The agreements include the exchange of views and information on matters related to communications and transportation; promotion of closer cooperation and establishment of joint programmes and development of technical projects; reviewing, reconciling and collating the various projects under consideration by ASEAN; coordinating plans and activities; recommendation or measures for cooperation, standardization and development of training and facilitate exchange of experts.⁶

⁵The Agreement on Preferential Trading Arrangements was signed by the ASEAN countries on 24 February 1977 in Manila. See Tan (1982).

⁶Terms of reference for the establishment of the Committee on Transportation and Communications, 1977.

Finance and Banking

Cooperation in finance and banking includes the financing of the AIPs and promotion of financial instruments to expand ASEAN trade and investment, several of which have been invented. They are instruments of the central banks and monetary authorities such as the ASEAN SWAP Arrangement, tax and customs matters, insurance issues, fiscal and non-fiscal incentives for AIPs, and the establishment of ASEAN Finance Cooperation to finance ASEAN joint ventures.

Relations with Third Countries and Parties

In order to promote a more effective participation in international economic affairs ASEAN has established a formal dialogue with third countries and has adopted a joint approach to international economic problems and issues. A member country is assigned to be responsible for the ASEAN dialogue with a third country and/or party. As of now the arrangement is: Indonesia-Japan and the EEC; Malaysia-Australia and West Asian Countries; Philippines-the United States and Canada; Singapore-New Zealand; Thailand-UNDP and ESCAP.

Participation of the Private Sector

The private sectors of ASEAN have been participating fully in the areas of cooperation in trade and industry through the ASEAN Chamber of Commerce and Industry (CCI), which was established since 1972. ASEAN-CCI has several working groups, which have been cooperating among themselves as well as working with the ASEAN officials on trade and industry.

Mechanism

Since the Bali Summit ASEAN has recognized its economic cooperation mechanism. The highest level is now the Meeting of ASEAN Economic Ministers (AEM), which meets twice a year, hosted by a member country on a rotation basis. Below the AEM there are five economic committees, each is served by an interim technical secretariat hosted by a member country which is appointed to be the chairman of the committee. The present arrangement is as follows:

- Committee on Industry, Minerals and Energy (COIME) - the Philippines;
- Committee on Trade and Tourism (COTT) - Singapore;

- Committee on Food and Forestry (COFAF) - Indonesia;
- Committee on Transportation and Communications (COTAC) - Malaysia;
- Committee on Finance and Banking (COFAB) - Thailand.

Below each committee there are numerous sub-committees, experts groups, and working groups which, together with the interim technical secretariat, prepare issues and positions to be discussed and negotiated by the committee. The committees usually meet twice a year; the hosting of the committee meeting is also on the rotation basis. Thus at all times there are several ASEAN economic meetings taking place, all culminating into their respective committee meetings and finally the AEM. The committee meetings could be at a ministerial level or lower.

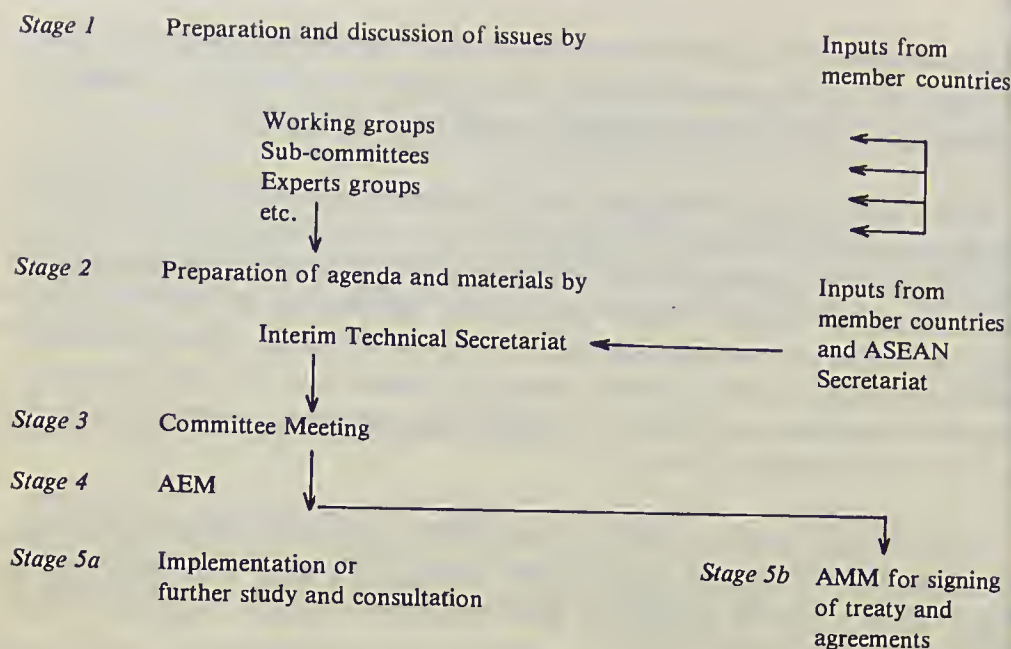
As mentioned earlier, AEM is the highest institution for economic co-operation. But if a treaty or an agreement has to be signed, then it has to be endorsed by the ASEAN Ministerial Meeting (AMM), which is the Meeting of the Ministers of Foreign Affairs.

In each country all ASEAN related matters are coordinated by the ASEAN National Secretariat.

The ASEAN Secretariat in Jakarta is supposed to coordinate all ASEAN matters at the regional level. The Secretariat consists of the Secretary General and his assistant, the Economic Bureau Director, and Directors of other bureaus. Because of shortage of staff the Secretariat has not been able to co-ordinate ASEAN economic programs at the regional level, nor has it been able to provide technical inputs to the various committees. But recently ASEAN has approved of the positions of five additional economic officers. It is, therefore, expected that the Secretariat will gradually take over the role of the interim technical secretariat of each committee.

At present the work flow of a committee after the issue has been selected either by the Committee or the AEM appears as below.

Works at *Stage 1* consists of numerous meetings among the representatives of the member countries, after which position papers or recommendations on the issue under discussion are prepared for the Interim Technical Secretariat (ITS). These are considered necessary because the ITSs are short of technical staff on specialized subjects. The additional economic officers appointed to the Secretariat are expected to assist the ITS, and thus reducing some of the works at *Stage 1*. And eventually works of the ITS are expected to be handled by the Economic Bureau of the ASEAN Secretariat.



For COTT and COIME, their works have had involvement of the ASEAN-CCI at *Stage 1* and *2*.

AN ASSESSMENT OF ASEAN ECONOMIC COOPERATION

Since the establishment of ASEAN and especially after the Bali Summit much efforts has been put into ASEAN in order to realize the objectives of economic cooperation as set out in the various declarations and particularly in the ASEAN Concord. While works under different committees have had different records of achievement, there are certain common factors which can be identified to have influenced the performance in all economic fields. We summarize below the records of achievement by areas and analyze factors determining ASEAN economic cooperation.

PAST RECORD OF PERFORMANCE

Industry, Minerals and Energy

Works on cooperation in industry, minerals and energy have been carried out by COIME, which has its chairman and ITS in the Philippines. The effort has been mostly in the area of industrial cooperation, which has largely taken the forms of making arrangements for AIPs, AIC, and more recently AIJV.

The concept of AIPs has been initially proposed as early as 1973 by a United Nations study,⁷ and was officially adopted at the Bali Summit in 1976. To date, four AIPs have been identified and are on various stages of implementation. These are: the ASEAN Urea Projects in Indonesia and Malaysia, the ASEAN Rock Salt-Soda Ash Project in Thailand and the ASEAN Copper Fabrication Project in the Philippines. Implementations of AIPs are governed by the Basic Agreement on ASEAN Industrial Projects (BAAIP) which was ratified in March 1980. AIPs are based on the principles of resource pooling and market sharing. The host country takes up 60 per cent of the equity, with Singapore taking one per cent and the rest shared equally by three other countries. The projects are based on regional market, and thus market access is expected from all of the member countries.

Since the adoption of AIPs in 1976, it took four years for BAAIP to be ratified because of the difficulties in reaching agreements on resource pooling and market sharing. The most advanced AIP is the ASEAN Urea Fertilizer Project of Indonesia, which is now close to completion of the construction stage. The ASEAN Urea Fertilizer Project of Malaysia is about to enter the construction stage. But the ASEAN Rock Salt-Soda Ash Project of Thailand is yet to solve the project financing problem. The Copper Fabrication Project of the Philippines was only recently adopted after a few other projects had been considered. Finally Singapore has dropped the Diesel Engine Project assigned to it after the Bali Summit, and has not tried to propose a new Singapore's AIP.

It can be concluded that AIPs have been slow in being implemented, due to various difficulties concerning project identification, implementation procedures, and project financing.

Cooperation in energy has been carried out by more than one ASEAN committee, and is at present at the stage of being considered for reorganization. Starting with petroleum the Heads of National State Oil Companies at their meeting on October 15, 1975, agreed to set up the ASEAN Council of Petroleum (ASCOPE) to function as a forum and mechanism for regional cooperation in petroleum "in all its facets, including industrial and environmental."

After the Bali Summit COIME was assigned the responsibility to look after energy cooperation, and at the Fifth Meeting of COIME in April 1978, COIME decided to embark upon cooperation in non-petroleum energy resources such

⁷United Nations, "Economic Cooperation among Member Countries of the Association of Southeast Asian Nations," *Journal of Development Planning*, No. 7, 1974.

as coal, geothermal, uranium and nuclear power, and the commercially non-conventional energy forms such as solar energy, biomass and others. In addition COIME also listed other general areas of cooperation, such as information exchange, especially in energy resources management, energy forecasting techniques, energy conservation, research and development (R & D), and education and training.⁸

To avoid duplication of efforts between ASCOPE and COIME, the Sixth AEM (Jakarta, 5-6 June, 1978) decided that cooperation in petroleum energy remained under ASCOPE while COIME is to be responsible for cooperation in non-petroleum energy sources. However another ASEAN permanent committee, the Committee on Science and Technology (COST), at its second meeting (Bangkok, February 1979), set up a working group on non-conventional energy research to focus on solar energy, bio-energy conversion, advanced coal technologies, wind energy, thermal energy, energy inventory and assessment, and micro-hydro energy. Again to avoid further duplication of COST's works with COIME it was later agreed that in the area of non-petroleum energy sources COST shall handle those energy sources which are in the R & D stages.

The account on energy cooperation summarized above indicates that ASEAN is still in the process of making arrangements which can be effective. In the meantime the energy crisis of 1979/1980 called to a test the agreement to cooperate on basic commodities. At the request of Thailand, Indonesia and Malaysia came forward with the agreement to sell crude oil to Thailand at the rate of 10,000 and 5,000 barrels per day respectively at government contracted prices (i.e. without premium). Apart from this incidence, record of energy cooperation has been mostly in the forms of conferences and consultations to exchange views and information, and joint undertakings of research and development.

Trade and Tourism

ASEAN cooperation in intra-ASEAN trade which has been carried out under the PTA reached at the Third Meeting of the AEM (Manila 20-22 January 1977), has been mostly in the form of exchange of tariff preferentials. Since 1977 the tariff cuts have been deeper and wider. Starting with a ten per cent tariff preferences for most products the preferences are now generally 20 and 25 per cent. Negotiations for tariff preferences started first with a "product-by-product" approach, and have since been complemented by

⁸COIME, *Report of the Fifth Meeting of COIME*, April 1978, Manila.

“across-the-board” tariff reductions for imports of certain values, with a provision for an exclusion list of “sensitive items.” In April 1980, ASEAN agreed to have tariff reduction of 20 per cent for imports which had values of less than US\$ 50,000 each in 1978 import statistics. In May 1981, this ceiling was raised to include all imports which had values of below US\$ 500,000 each. In addition ASEAN has also agreed to look into the feasibility of raising the ceiling further to include imports which have values of less than US\$ 1 million each. Items to be accorded preferential treatment have to satisfy various rules of origin specified in the Agreement.⁹

The record of performance in trade cooperation has been full of tedious negotiations for tariff cut, while the actual intra-ASEAN trade expansion resulting therefrom is known to be negligible. First the product-by-product approach, which has been in the form of “matrix” negotiation and “voluntary offer” list, has been found to be most inefficient and time consuming. The recently implemented across the board approach has also met with the problem of the definition of “sensitive items” which, in some country’s lists, have virtually eliminated the potentially tradable items. Thus after six years of PTA, the results have been the growth in items accorded preferential tariff (about 15,000 items as of October 1982) rather than in actual intra-ASEAN trade expansion. While cooperation to promote intra-ASEAN trade has had limited results, ASEAN has been more successful in cooperation to promote extra-ASEAN trade, the subject which will be discussed in later section.

Cooperation in tourism has resulted from actions taken in other areas. For example the implementation of the “ASEAN Circle Fare” among the ASEAN airlines has reduced the cost of travelling among ASEAN countries. The permission to stay up to two weeks in a member country without a visa has made it easier for ASEAN tourists. Finally the ASEAN’s related activities implemented by the various committees and organizations have certainly as a by product promoted tourism in ASEAN.

Food, Agriculture and Forestry

Record of performance in food and agriculture may be seen in the activities of COFAF in general and the establishment of the ASEAN Food Security Reserve (AFSR) in particular. COFAF has been implementing several projects mostly with financial assistance from third countries or international organization, which are listed below:

⁹ASEAN, *Agreement on Preferential Trading Arrangements*, 24 February 1977, Manila.

- Regional seed technology programme - New Zealand;
- Plant quarantine training center and institute (PLANT 1) - USA;
- Food handling project - Australia;
- ASEAN-EEC Collaborative programme on grains post-harvest technology - EEC;
- Livestock and fisheries;
- ASEAN Agricultural Development Planning Center (ADPC) - USA;
- Study on supply of and demand for food and other strategic agricultural products - UNDP.

In addition COFAF has established a subsidiary body for research and development, known as ASEAN Agricultural Research Coordinating Board (AARCB), to conduct R & D for both crops and livestock. There are also COFAF's activities in the field of training and extension.

A major undertaking of COFAF was the establishment of the AFSR, as detailed in the Agreement on the ASEAN Food Security Reserve signed on October 4, 1979.¹⁰ The member countries are to cooperate and coordinate their food security policies on all major relevant issues. Rice has been adopted as the first food item to come under the scheme, because of its being the common ASEAN staple food. A major component of the AFSR scheme is the ASEAN Emergency Rice Reserve, which was initially set at 50,000 metric tons, and is to be restored at this level after withdrawal. The emergency reserve is held by each member country as follows:

Indonesia:	12,000 metric tons
Malaysia:	6,000 metric tons
Philippines:	12,000 metric tons
Singapore:	5,000 metric tons
Thailand:	15,000 metric tons

The AFSR agreement also includes a Food Information and Early Warning System, which includes maize, soybeans, and sugar in addition to rice.

All activities of the AFSR are supervised by the ASEAN Food Security Reserve Board.

The AFSR has been viewed favourably by other countries and organizations which are concerned with food security issues such as the group of 77, ESCAP and the United Nations World Food Council.

¹⁰ASEAN Secretariat, "Agreement on the ASEAN Food Security Reserve," *ASEAN Documentation Series*, 1981, Jakarta.

Transportation and Communication

Since the establishment of COTAC in 1977 up to the present a total of 114 projects have been identified, of which 26 have been completed. The works in transportation and communications have been organized into four areas, i.e.:

- Shipping and ports;
- Land transportation;
- Civil aviation and related services;
- Posts and telecommunications.

In each area the past record of achievement varies. Several of the 34 shipping projects are at study stage, with financial assistance from UNDP. A priority project, the establishment of the ASEAN Liner Service or Joint Shipping Operations, is yet to undergo the feasibility study stage. A work programme on land transportation for 1982-1986 has been designed to attain efficient use of existing land and inland waterways systems and improvement to auxiliary facilities, and secondly to establish new land, inland waterways and ferry links in the ASEAN region. Some projects of mostly institutional in nature have been implemented under the programme, while others are at study stage. In this area ASEAN has agreed in principle to recognize the domestic driving licences of each other.

Cooperation in civil aviation has had a more impressive record of regionalism. ASEAN adopted a joint stand when confronted with the Australian Protectionist Civil Aviation Policy in 1978. And now ASEAN has adopted a common stand on the Ho Chi Minh FIR (former Saigon FIR) and on the West Germany's Civil Aviation Policy. Apart from the common stand on these issues ASEAN has several projects in civil aviation aimed at promoting safe and efficient air transport services.

Cooperation in posts and telecommunications has had an impressive record of achievement. The projects already implemented include Business Reply Service, Inter-Country Remittance Services, use of the *Palapa* (satellite) system, and ASEAN Cable Projects. Almost all ASEAN capitals are now connected by the sub-marine cable system, except for the Malaysia-Singapore-Thailand section, which is under construction, and the Philippines-Thailand section is in the planning stage.

It can be concluded that cooperation in transportation and communications has been quite satisfactory. But much of the efforts have been realized because of the assistance from third countries or international organizations, rather than from ASEAN own expenses.

Finance and Banking

Another active area of cooperation has been in finance and banking. As early as 1977 the ASEAN central banks have entered into the Swap Arrangement whereby the member countries are to provide for US\$ 200 million of short-term support. The private commercial banks have also been active in this field, having set up the ASEAN Finance Corporation (AFC) to finance ASEAN's joint venture projects. Apart from trying to develop its own ASEAN's joint ventures, AFC has gone on to set up a joint venture with Japanese financial institutions to promote investment, finance and trade between the ASEAN region and Japan. And together with the ASEAN Banking Council a few other financial schemes are being developed to promote intra-ASEAN trade and investment.

In the areas of customs, tax and insurance matters, which also come under COFAB, there has been effort of cooperation. While progress has been made, there has yet to be concrete results of cooperations. It has been admitted that the progress of COFAB has been slow, due both to the slow progress of cooperation in the real sector and to the fact that there are alternatives to sub-regional financial arrangements.

Joint Approaches to International Economic Problems and Dialogue with Third Countries

ASEAN has been cooperating in the efforts to protect the commodity export earnings of member countries and to stabilize the prices of primary commodities. These efforts have been exercised at international fora such as UNCTAD and the Non-Aligned Movement, and in the ASEAN's dialogue with Japan, the United States and the EEC. In addition to commodity problems ASEAN has also adopted a joint approach to other world economic problems such as the reform of international trading system, the reform of international monetary system and transfer of real resources.

ASEAN's activities in the field of commodities have concentrated in the UNCTAD Integrated Programme for Commodities (IPC) and the Common Fund. ASEAN is known to have contributed significantly to a number of agreements under the IPC, but their implementations have been delayed due to lack of cooperation from some of the developed countries. ASEAN cooperation has been effective in the Association of Natural Rubber Producing Countries (ANRFC) and in the International Tin Agreement, but ASEAN's efforts in persuading Japan and the EEC to enter into a scheme to stabilize export earnings have not been successful.

ASEAN's dialogue with third countries was originally designed to improve market access for ASEAN products in these countries. Starting in 1972 with the establishment of the Special Coordinating Committee of ASEAN (SCCAN) to hold a dialogue with the EEC, the activities developed by 1976-1977 into formal dialogues with several other countries and international organizations, as mentioned earlier. The scope of the dialogue has since been expanded to serve as fora for securing assistance for development projects in ASEAN and in pursuing ASEAN concerns with regard to international economic and political issues. While the dialogues have been considered useful in providing a channel for ASEAN to receive technical assistance from third countries and parties, which has amounted to about US\$100 million as of early 1983, the ASEAN economic and foreign ministers have expressed their concern that the dissipation of dialogue activities has had the effect of reducing the effectiveness of the dialogues in terms of the original objective of improving market access for ASEAN products.¹¹

AN ANALYSIS

Factors which could be said to have explained past record of ASEAN economic cooperation may be grouped into general factors, and factors specific to a scheme. We discuss these factors in turn.

Economic Regionalism

Behind all aspects of economic cooperation lies the political will to co-operate. The political will of the member countries, or economic regionalism, can be gauged in terms of the degree to which the member countries are willing to share markets and to pool resources by entering into special or preferential economic relations among themselves. Such arrangements necessarily mean that there is a certain degree of discrimination against non-members of the regional group.

In assessing the record of ASEAN economic cooperation it has been found that at this stage ASEAN is willing to go to the extent of building up a closer cooperation rather than an economic integration. In doing so ASEAN is willing to pool resources, but is ready to share markets only to a small extent. National priorities and national sovereignty come before regional priorities, which, in turn, are accorded high priority only if they coincide or are supportive of national priorities.

¹¹ASEAN Secretariat, "ASEAN Relations with Third Countries/International Organizations," Document ATF/III/49/k, prepared for the Third Meeting of the ASEAN Task Force, Kuala Lumpur, 2-4 February, 1983.

The above position of ASEAN explains much of the past record of ASEAN's attempts at economic cooperation. Industrial cooperation will go well as far as joint investment is required. But when the markets have to be shared cooperation has either broken down or has been subject to prolonged negotiations. The diesel engine project, which was one of the original AIPs, was dropped because certain member countries were not willing to share their markets. Negotiations on AIC had to go on for a long time in the case of complementation scheme for the automotive industry, also because of the problem with market sharing. And preferential tariff agreements have had very little impact on intra-ASEAN trade because the member countries, in the process of negotiations, have attempted to make certain that their domestic producers will not be threatened by the products from other member countries.

On the other hand if cooperation schemes require basically the pooling of resources ASEAN is known to have been willing to cooperate. The schemes which are designed to bring the member countries closer to each other have also been given a wholehearted support. Evidences to this effect can be found in the various schemes of cooperation in foods and agriculture, transportation and communications, finance and banking, and in joint approaches in the relations with third countries/international organizations. Some of the example schemes are the AFSR of COFAF, the AFC and ASEAN Swap Arrangement of COFAB, the policy on civil aviation of COTAC, and the economic cooperation agreement reached with the EEC. In addition the ASEAN citizens have been brought closer to each other by the formation of numerous non-governmental organizations (numbering at least 30 at last count), all of which have a series of activities.

Economic Complementarity

Intra-ASEAN economic activities can be self-generated if the ASEAN economies are complementary to each other. But the extent of ASEAN economic complementarity is limited. When complementarity exists cooperation schemes have been found to be meaningful, and the agreements are easy to reach. The AFSR was possible because Thailand is the food surplus country especially in rice while Malaysia, Singapore and Indonesia have a deficit in food. Cooperation in securing the supply of oil for Thailand in emergency was accomplished because Indonesia and Malaysia have surplus in petroleum. On the other hand it has been found that industrial and trade (especially in manufactured goods) cooperations have been slow in materializing because the industrial structure of the member countries are not much different from each other. The industrial structure of Singapore, which is the most advanced, is not that much advanced compared with the other ASEAN countries. Thus for

manufactured goods in general similar products are being manufactured in all ASEAN countries. And if they are not produced in a country at a point of time, the chances are that they are expected to be produced soon after. The policy of import substitution followed by most ASEAN countries except Singapore further reinforces the non-complementarity of the industrial structure. Since the decision to invest is based on the protected domestic market, any attempt to lower the protective level to allow competition from other ASEAN countries would generally be resisted by the domestic producers and hence the bureaucrats.¹²

Another economic non-complementarity is in terms of economic policy. All ASEAN countries follow the policy of open economy; trade and investment are allowed to take place based on market factors. Thus the ASEAN economies are more complementary to the more advanced industrial countries, as evident in the extent of ASEAN's trade and investment with these countries. In other words ASEAN economic cooperation has not usually been brought into consideration as a variable when the ASEAN countries formulate their economic policies. It is therefore not surprising to see that the ASEAN-CCI has not been too successful in identifying projects of common interest after several years of trying.

To the extent that there is economic complementarity, the intra-ASEAN trade has taken place. Petroleum and rice tradings are the examples on this point. But this is also subject to the existing trading system. For example sugar is not traded among ASEAN countries even though two of the ASEAN countries, Thailand and the Philippines, are the world major sugar exporters, while the rest of ASEAN have to import sugar.

The similarity of economic structure among the ASEAN countries, or the lack of complementarity, has had positive effects on the extra-ASEAN relations. Thus ASEAN has found enough common interest in entering into joint approaches to international economic problems, as pointed out earlier.

Financial Constraints

Financial constraints act as a limit to ASEAN cooperation at both public sector and private sector levels. With the exception of Singapore all ASEAN countries rely on import tariff as a major source of government revenue. It is often the case that the Ministries of Finance have argued against tariff reduc-

¹²Bureaucrats and businessmen in ASEAN countries usually do not support each other. But when it comes to the issue of market sharing among ASEAN countries the bureaucrats have been known to have gone out of their way to protect their local businessmen.

tion for fear of a loss in revenue. And the budget constraint of the Thai government has been the major factor causing the delay in the implementation of the ASEAN Rock Salt-Soda Ash Project.

Another form of financial constraint is in the availability of fund to finance ASEAN projects. For example COTAC has complained of the difficulty of obtaining fund to finance its projects. In fact most ASEAN projects have been financed by contributions from third countries and/or international organizations. Failure to secure funds from those sources has caused project delay.

Within the ASEAN private sectors it must be admitted that they still have to rely on private capital flow from outside the region, in addition to the locally generated capital fund. In other words the ASEAN private sectors do not possess enough surplus fund to invest in other countries, except in a few special cases. Thus direct foreign investment in ASEAN has come mostly from the advanced industrialized countries. As is often the case, direct foreign investment in ASEAN brings with it even closer trade and investment tie with the countries from which investment has originated.

Organization and Personnel

The ASEAN organization as it exists today has made it very difficult for a meaningful economic cooperation to actually take place. Because of the lack of technical staff to serve an economic committee, the committee has to rely on a series of discussions, consultations or negotiations by the working groups, experts groups, or subcommittees, all of which involve international travelling. And since most decisions are by consensus, all countries have to be represented. The difficulty in selecting a date for an ASEAN meeting is well known. As a consequence the projects inevitably become delayed.

After the decisions are finally reached at the committee level they have to be submitted to the AEM, which only meets twice a year. Thus if a proposal from a committee is not approved by the AEM, it will take at least six more months before it is due for consideration again. And after the AEM approves of the proposal, its implementations still have to go through the local procedure.

The ASEAN Secretariat has not been able to help much in the ASEAN decision making process. With only one economic officer attached to the Secretariat, what it has been able to do is only to monitor the works of the various economic committees.

The inefficiency of the ASEAN organization has been due to the failure of ASEAN to clearly separate the policy making task from the technical preparation task. Government bureaucrats are involved in all of the works. Since they are part of the policy making process, they do not always have to find ways and means to implement policies decided by the politicians. And when the bureaucrats have to prepare technical papers on a particular issue they are often limited by time and sometimes by the technical knowledge they have on the subject.

IMPLICATIONS FOR ASEAN EXTERNAL RELATIONS

We have seen from the above discussion that ASEAN economic regionalism at present is to the extent that the member countries are willing to share resources, but are still limited in their willingness to share their markets. ASEAN is committed to work towards a closer regional economic cooperation but is not yet committed to regional economic integration. This does not necessarily mean that ASEAN is deliberately preventing economic integration. Rather, ASEAN has adopted the strategy of building up of regional network of cooperation which provides linkages among the member countries and expands areas of common interest. It is expected that this present stage of ASEAN economic cooperation will gradually develop into a closer economic group.

The fact that ASEAN has chosen the strategy of building up institutional infrastructure necessary for economic integration in the long run has important implications for its major trading partners such as the United States, Japan and the EEC. It means that it is unlikely for ASEAN to adopt the policy of economic discrimination against these countries. But ASEAN intends to improve its strength in the dialogues with the major economic partners, implying that ASEAN's request and complaints should be treated more seriously.

Recognizing the fact that ASEAN has strong potential for further economic growth and that ASEAN has adopted an open approach to economic cooperation, the sub-region should continue to provide strong opportunities for trade and investment from developed countries such as the United States and Japan. It is therefore considered to be of interest to the United States and Japan to assist ASEAN in its efforts at economic cooperation, and to genuinely cooperate with ASEAN in the dialogue matters.

It is necessary to point out that in the United States, Japan, and ASEAN most international economic activities are initiated by the private sectors. There is therefore a limitation to what the governments of these countries can

do. For the United States and Japan, granting foreign aid to assist ASEAN in the implementation of ASEAN projects would be relatively an easier task than promoting trade and investment. But often domestic politics and internal economic problems in the United States and Japan have worked against trade and investment with ASEAN. Such a development is unfortunate, and the governments of the United States and Japan should realize that discriminating against ASEAN is infact against their own long-term economic and political interest. Thus the least the governments can do is to resist the political move to interfere with the free flow of goods and services, and investment.

CONCLUSION

In this paper we have attempted to analyze the degree of ASEAN economic regionalism and the implications on ASEAN economic cooperation with respect to intra- and extra-ASEAN economic relations. The objectives have been to understand the process of economic integration in ASEAN so that an assessment can be made as to what the major issues in ASEAN economic regionalism are, what ASEAN is likely to become in terms of being an economic group and how the major economic partners of ASEAN should cooperate with ASEAN in the process.

We have noted that ASEAN has made a strong commitment to economic cooperation especially since the 1976 Summit. The commitment has been both in terms of resource pooling and market sharing. Several schemes of economic cooperation have been introduced since then.

Due to various reasons pointed out in the paper the ASEAN schemes of economic cooperation have experienced a varying degree of success. Firstly, it has been found that the schemes which require the pooling of resources tend to be more successful than the schemes which require the sharing of markets. Secondly, the degree of ASEAN economic complementarity serves as a limit and boundary within which meaningful economic cooperation can take place. Thirdly, ASEAN is still financially limited, and the progress of economic cooperation depends on the availability of resources contributed by third parties. Finally, the present organization set up of ASEAN and the lack of technical personnel further hamper ASEAN's efforts.

At present ASEAN is aware of the problems their programmes of economic cooperation are faced with. It is expected that the future schemes will be designed with a full recognition of the willingness of the member countries to pool resources and/or to share markets. In the meantime efforts are expected to be made to make the economies more complementary in the long

run. More financial commitment, reorganization of the ASEAN mechanism and personnel are likely to be implemented in the near future.

The present and future development of ASEAN indicate that ASEAN is going to develop into an economic group which is open in its economic policies, and is bound by common interests encouraged to be developed over the years, rather than a closed group discriminating against non-member countries. Such an economic group will contribute towards economic growth of the member countries, help ensure economic stability in the region, provide opportunities for trade and investment, and thus should be encouraged and assisted by the more developed countries and concerned international organizations.

Pattern and Development of ASEAN Economic Cooperation

Djisman S. SIMANDJUNTAK

INTRODUCTION

Unlike LAFTA, CACM and the East African Common Market, all of which have approved of their ambitious programmes since their inception, ASEAN has been careful in promoting regional cooperation. Since its establishment ASEAN has never declared that regional cooperation embarked upon since 1967 would bring about economic integration in one form or another. Neither in the Bangkok Declaration nor in the Declaration of ASEAN Concord signed at the 1976 Bali Summit Meeting was there a joint commitment by the ASEAN member countries to economic integration.

There are strong reasons behind this cautious attitude. Experience in other regions has shown that an ambitious programme is not a guarantee for a successful regional cooperation. No matter how good a blueprint is, it will only become a piece of used paper if it is not sustained by a political will, which is in turn a product of diverse factors including economic considerations. However, it does not follow that economic integration is not discussed at all by the ASEAN member countries. Individuals, officials and certain groups in society have expressed their dissatisfaction with ASEAN economic cooperation so far and have demanded assurance of the scheme of regional economic cooperation to be promoted by ASEAN. Task Force has been set up to evaluate ASEAN economic cooperation and has looked for new alternatives to improve the effectiveness of the economic cooperation. It became clear from the various meetings that controversial views regarding market sharing and resource pooling still exist.

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This paper will discuss arguments put forward by various groups which have different views. In the first part we shall analyze the essence of ASEAN economic cooperation up to the present including ASEAN's external economic relations with various countries and international institutions. The second part will discuss the arguments of the proponents of the idea of market sharing in ASEAN. And finally, we try to make an estimation on the prospects of ASEAN economic cooperation in the coming years.

THE ESSENCE OF ASEAN ECONOMIC COOPERATION

The Agreement on Preferential Trading Arrangements

Almost ten years had passed before ASEAN succeeded in agreeing upon the cooperation scheme in the economic field. It was only after the Bali Summit Meeting in 1976 that some concrete form and direction of the ASEAN economic cooperation came out.

The programme of cooperation comprises the Preferential Trading Arrangements (PTA), the ASEAN Industrial Project (AIP), ASEAN Industrial Complementation (AIC) and cooperation in the development and use of infrastructures having regional relevance.

There are differences between the ASEAN's PTA and the traditional preferential trade agreement. If the preferential agreement stipulated in Article XXIV of GATT is restricted to reducing or abolishing trade barriers, the ASEAN's PTA still contains other forms of preferential treatment. They include mutual assistance in the trade of basic commodities (long-term quantity contract) especially food and energy, preferential interest rate in financing intra-ASEAN trade, preference in government procurements, and preferential reduction of non-tariff barriers.

It can be noted from the ASEAN Economic Ministers Meetings that the mutual assistance in the trade of basic commodities and the preferential tariff reduction received the highest priority in the ASEAN negotiations on preferential trade. From the mutual assistance in the trade of basic commodities it is expected that: (i) the country facing short of supply will get assistance from other ASEAN countries in the form of a special purchase right; and (ii) the country with excess supply will get a special right as seller to the other ASEAN member countries. There will be of course many constraints in the implementation of such a cooperation. What is normally attractive to a potential exporter of a certain commodity is the guarantee of market access if there is

an excess supply, while a potential importer in general would like to be ensured a supply if there is a lack of it. There will be no problem if the excess supply in a member country concurrently occurs with the lack of supply in another member country and vice versa. Those difficulties were also faced by ASEAN. Nevertheless, ASEAN could still show some progress in this cooperation, though not spectacular, through the formation of security reserves which at least might alleviate difficulties faced by a member country due to the lack of supply.

Mutual assistance in this commodity trade does have an effect on intra-ASEAN trade. But the most important measure which is expected to be able to boost up intra-ASEAN trade is reduction of tariffs which are still high, except in Singapore. It will even become obvious from the discussion on the ASEAN industrial cooperation which is pivotal to the ASEAN economic cooperation.

The preferential tariff reduction has been done by ASEAN several times and at the present it covers almost 10,000 products based on the six digit BTN. However, its effect on intra-ASEAN trade has not yet been significant. The share of the intra-ASEAN import did somewhat increase from an average of 12.7 per cent in 1968-1970 to about 13.5 per cent of the total ASEAN import in 1978-1980. But substantial increases only occurred in the case of Indonesia and Thailand. The share of intra-ASEAN import of Malaysia and Singapore even declined by respectively 2.6 per cent and 3 per cent of the total import. On the other side the intra-ASEAN export relatively declined against the total export during the same period, namely from 19 per cent to 16.1 per cent. Only the Philippines showed an increase in its intra-ASEAN export, i.e. from 2.5 per cent to 5.6 per cent.¹

A period of five years is too short in order to see the full impact of the tariff reduction. Even though, there are indeed diverse a-priori restrictions in the ASEAN preferential tariff scheme. The first restriction is concerned with the selection of commodities that should get preferential treatment in each ASEAN member countries. Many of the commodities proposed have practically no significant value in intra-ASEAN trade, and their preferential margin is also low (in general it ranges between 10-20 per cent) of the existing tariff rate. In such conditions it would not be realistic to expect a substantial increase in intra-ASEAN trade, especially because there are still many other barriers in intra-ASEAN trade.

In the last few years ASEAN has broadened the scope and deepened the margin of its preferential tariff reduction. Aside from the product-to-product

¹Cfr. Jesus P. Estanislao and Alejandro A. Aquino: "An Economic Overview of the ASEAN" (Centre for Research and Communication), Manila, February 1983, pp. 8-9.

approach, the more general approach was being applied by using the import value of each product as a criterium of deciding whether or not a certain product should get a preferential treatment. In other words, ASEAN tends to apply the across the board method with certain restrictions. ASEAN embarked on this approach by giving preferential tariffs for products with an import value up to US\$ 50,000. This limit was gradually increased and as of January 1982 it has become US\$ 2.5 million. This is one step ahead, although the effect has not yet been felt, and the future of the preferential tariff still remains uncertain as before so as to cause the impatient among the "ASEAN-ists" become more impatient.

ASEAN Industrial Cooperation

One of the main causes of the relative insignificance of intra-regional trade of developing countries in general and the ASEAN member countries in particular is the absence of complementary production. Except for Singapore, each ASEAN member country is an exporter of the same commodities. Also the industrial products produced by these countries are basically the same and get the same protection as well in their respective countries. Import substitution constitutes the main target and is extensively applied, if not in a superficial way.² Every factory has a variety of activities with short "production run" so that it cannot reap the benefit of the economies of scale. Therefore, it is to be expected that the intra-ASEAN trade, both inter and intra industry based, is just a small fraction of the whole trade.

This is the reason for the developing countries to develop industrial cooperation within the regional framework. There are even many people saying that in regional cooperation among developing countries the most important thing is not intra-regional trade but industrial cooperation.

ASEAN itself realizes the urgency of this industrial cooperation in order to heighten the complementarity, the efficiency, and to avoid the piling up of industries in the ASEAN member countries. To this end the ASEAN has agreed upon two industrial cooperation schemes, namely the ASEAN Industrial Project (AIP) and the ASEAN Industrial Complementation. A new scheme of industrial cooperation was agreed upon afterwards at the meeting of the ASEAN Economic Ministers in Singapore in 1982, namely the ASEAN Industrial Joint Ventures (AIJV).

²Cfr. Basri Hasanuddin, "The Pattern and Structure of Industry of the ASEAN Region," *The Indonesian Quarterly*, (CSIS), Jakarta, Vol. XI, No. 1, 1983, p. 36.

Members of the ASEAN Industrial Project are the governments of the member countries. The selection and allocation of the project are primarily based on the relative abundance of the basic material needed for the project. According to research conducted by a United Nations Team the feasibility and benefit of such a cooperation is very great in case of ASEAN. Of the many projects proposed by the team, ASEAN then chose and allocated the Urea Project for Indonesia and Malaysia, the Superphosphate for the Philippines, the Diesel Engine for Singapore and the Soda Ash for Thailand. To set up those projects each country would become a shareholder (resource pooling) while their products would get the preferential treatment in the ASEAN member countries (market sharing). A third country such as Japan has given its support to this cooperation scheme by facilitating credit which is called "Fukuda Fund."

However, of the five projects only the Urea Project in Indonesia has shown progress and approached the production phase. The Philippines has even abandoned the Superphosphate Project and chosen the Copper Fabrication Project instead, while Singapore has not yet been able to select a new project to replace that of the diesel engine which she had to give up because it was not accepted by the other ASEAN member countries as an ASEAN industrial project. In other words, many difficulties have to be faced by ASEAN in the implementation of the Industrial Project. It is not only due to a lack of political will, but there are also other factors beyond the influence of ASEAN such as the price drop of Superphosphate, which has compelled the Philippines to give up this project. But as long as it concerns ASEAN's internal problems, the question which still needs an answer is that on the scope and depth of the preferences that should be given to the products of the joint projects.

Unlike the ASEAN Industrial Project, which is a country to country project, the ASEAN industrial complementation is based on the initiative of the private sector in a certain industrial branch. This industrial complementation is nothing but intra-industrial division of labor, in which each establishments specializes in producing certain components of a certain product. Through this kind of division of labor it is expected that the unit cost will be minimized, which will in turn improve competitiveness of the final product in the ASEAN and world market. Furthermore, learning by doing will be more effective if the participating companies specialize in producing a limited number of components rather than producing various kind of components which force the worker to work on different processes.

In the framework of the industrial complementation several "ASEAN Industrial Clubs" have been formed, each of which decided the complementary programme for its own branch of industry. To date there has been only one

which has completed the programme, namely the ASEAN Federation of Automotive Industry. Each manufacturing establishment taking part in this programme gets a certain component such as diesel engines for Indonesia. This program was accepted at the Economic Ministers Meeting in 1980. However, the programme agreed upon by the ministers differed widely from that proposed by the ASEAN Federation of Automotive Industry. On account of the pressure exerted by Singapore, the other four countries had to abandon the proposals demanding some special treatments for the products of ASEAN industrial complementation. What remained from the preferential treatment demanded by the ASEAN Automotive Industry was a preferential tariffs of 50 per cent of the MFN tariff rate.

Another form of ASEAN industrial cooperation is the ASEAN Industrial Joint Ventures (AIJV). This is an enterprise in one of the ASEAN member countries, in which the citizens of at least two ASEAN member countries take part with a minimum capital share of 51 per cent. The products of the joint ventures may be in the form of new products or already existing products and will be treated (with) a preferential tariff of 50 per cent in AIJV member countries. The countries which do not take part in the AIJV are required to wave their right of the intra-ASEAN MFN treatment, which is arranged in the ASEAN Preferential Trade Agreement. If the AIJV product is new, the joint venture will, aside from the preferential tariff, also be protected from similar products produced in the ASEAN region. Furthermore, for three years after the commercial production of an AIJV, new establishments producing similar products are not allowed.

It is still too early to make an assessment whether this kind of cooperation will run more smoothly when compared to the other forms of cooperation mentioned earlier. It will depend among other things on the decision-making process of the Economic Ministers to accept or reject the joint ventures proposed by the ASEAN Chamber of Trade Industry.

Aside from the above-mentioned forms there are still many forms of economic cooperation embarked upon by ASEAN. Cooperation in the development and use of infrastructure, cooperation in the transportation sector including ocean shipping, cooperation in science and technology and cooperation in tourism should also be mentioned, although at the present cooperation in those fields is still at the early stage. Of the same importance is also the cooperation initiated by the private sector.³ It was the private sector that has taken the initiative to form the ASEAN cooperation in the banking sector,

³Cfr. J. Panglaykim, "ASEAN Private Sector on the Move," in *The Indonesian Quarterly*, (CSIS), Jakarta, Vol. XI, No. 1, 1983, p. 57.

which is expected to encourage capital inflow into ASEAN and the intra-ASEAN flow of capital and trade.⁴ From various social groups, business as well as non-business, various initiatives have been taken to open new possibilities in the ASEAN economic cooperation.

As to its external relations, ASEAN has held cooperations with several countries and international institutions particularly UNDP and ESCAP. Regular dialogues have been held with Japan, the USA, EEC, Australia, New Zealand and Canada. The topics discussed comprise:

- promotion of access for ASEAN exports to the countries mentioned above;
- commodity trade, especially main export commodities from ASEAN such as sugar, rubber, palm oil and canned pineapple;
- financial support to the ASEAN regional cooperation programme particularly in financing the industrial cooperation programme;
- cooperation in finance and banking;
- cooperation in energy;
- cooperation in research;
- cooperation in the agricultural sector;
- development assistance;
- other kinds of cooperations.⁵

Development assistance and cooperation in research seem to get the most positive response from the ASEAN dialogue partners. Several agricultural projects are given financial support by the EEC and the largest portion of the financial aid of the EEC to non-associated countries goes to ASEAN. Japan has given its approval to provide credit for the ASEAN industrial cooperation which is known as the "Fukuda Fund." Also Australia, UNDP and other dialogue partners have promised their financial support for various research projects in ASEAN. Nevertheless, among the ASEAN proposals to its dialogue partners there are still many that do not get the response as expected by ASEAN. This is particularly so in the case of the dialogue on trade, especially that of raw materials, which is not surprising because of a variety of reasons. The dialogue partner countries have faced structural problems for several years and should the economic situation improve, the special concessions that can be given by these countries to ASEAN are limited on account of the multilateral obligations of the dialogue partner countries in the framework of GATT and other international agreements.

⁴Cfr. J. Panglaykim, "ASEAN Finance Corporation: Prospects and Challengers," in *The Indonesian Quarterly*, (CSIS), Jakarta, Vol. X, No. 1, 1981, p. 13.

⁵As to the complete issues and progress in this extensive dialogue, see the reports submitted by each coordinator country at the Meeting of ASEAN Economic Ministers, in Singapore in 1982.

One thing that seems to be beneficial for ASEAN from this dialogue is its impact on ASEAN efforts to formulate their common stance to cope with international problems. This dialogue may become a good learning process for ASEAN to bridge differences in national interests for the sake of those of the region. It is not unlikely that this external dialogue would bring about strong pressures to give priority to the regional interests with regard to the ASEAN internal economic cooperation.

DEMAND FOR FREE TRADE

From what has been discussed earlier it seems obvious that the ASEAN economic cooperation has become more extensive as the years pass, but little has been done to intensify it. This is exactly what has been criticized by certain individuals or groups in ASEAN. They are worried that extensive ASEAN economic cooperation without any commitment to a "grand design" as a hold, will sooner or later be disoriented. According to such criticisms, without any basic agreement on a future economic cooperation, the ASEAN member countries will still think and act for their own respective national interests, which is often not complementary, if not contrary to those of the region. In such a condition it is further feared that there will still be no stimulation to restructure the economy as one of the aims of regional cooperation.

The proponents of the free trade maintain that ASEAN should be more pronounced in forming the resource pooling and market sharing aimed at by ASEAN. They may be in the form of Free Trade Association, Customs Union or even ASEAN Economic Community.⁶ Those are forms of regional economic integration that have been successfully tried in Europe, i.e. EEC and EFTA, but they have to be dropped by other regions consisting of developing countries.

There are certainly various arguments supporting this proposal. Each ASEAN member country will perhaps have more courage to offer concessions in the ASEAN Preferential Trade, if they know that sooner or later, they will also get comparable concessions from the other member countries. In an ASEAN Free Trade Association the agreements on industrial cooperation will be more simple because no more debate on special preferential treatment is necessary. Trade and intra-ASEAN investment may increase, though it will

⁶Proponents of this idea are among others the ASEAN-CCI, which can be noted from the report of the Special Committee of CCI last November 1981. Included in this group are David Sycip, a Task Force member from the Philippines and Narongchai Akrasanee, Task Force member from Thailand.

not be substantial as pointed out earlier. Enterprises in ASEAN have to make adjustments because of the increasingly fierce competition, which will in turn promote efficiency or reduce the so-called "X-inefficiency." Efficient business establishments will reap the benefit of the "economies of scale." The old structure will be abolished through the creation of a new one, if I may borrow Schumpeter's terminology.

But what will happen with enterprises and countries with more backward industrial structure? The proponents of free trade would certainly say that they will switch over to industries that are better adjusted to their comparative advantage, those that are either inter-industrial or intra-industrial in nature.

The EEC's experience shows that free flow of goods, free flow of factors, free flow of capital, freedom of people to move and choose the sites of their business establishments (the five well-known freedoms) will not by itself be unfavorable to the backward establishments at the beginning of the integration. The German wine farmers did not give up their business when French wine was allowed to 'flow over' Germany. The French and Italian automotive industry are likewise, still able to compete even though German cars flow in without any restriction for being a competitor. In reality, what has been stimulated by the formation of the EEC was intra-industrial trade and it was not the inter-industrial trade, which had been initially feared to drive the member countries to the complex problems of restructuring. One must not forget that the EEC was not formed in a short time, but it came into being gradually. The transition period was not less than 12 years and during this period, even to date, still many kinds of products have received special treatment in the intra-EEC trade.

On the other hand, the experiences of other regional groupings should be studied to avoid exaggerating the role of liberalization in regional economic cooperation. One of the main problems that always comes up in regional integration among developing countries is that on the imbalance in intra-regional trade after the integration. The members, feeling that they were at a disadvantage in their own regional grouping had to give up their membership or join in a sub-regional grouping such as the Andean Pact. However, imbalance in the distribution of benefits as the result of integration is not the only factor compelling almost all regional cooperation among developing countries to dissolve themselves or to drop their intent to form a kind of integration agreed upon before. But this kind of imbalance may be compared to gasoline thrown into fire, if, as has been shown by experience, political cooperation is indeed hampered by different national interests. Unfortunately, it is very difficult to formulate and apply a mechanism that would be capable of preventing or compensating the imbalance in the distribution of benefits as a result of integration.

PREPARATION FOR INTEGRATION

As pointed out earlier, there are two different approaches in the ASEAN regional cooperation, although both of them are aimed at accelerating the realization of social welfare in ASEAN as is spelled out in the Bangkok Declaration. The first one which is the step by step approach and which has been basically used by ASEAN until now, is based on the assumption that the integration of a society, which has experienced disintegration before for a long period of time, takes a long time. Integration, and hence also intra-ASEAN exchanges are considered as outcomes of functional cooperations, which year by year have become closer.⁷

Conversely, the second approach, which is the market integration approach, believes that commitment to a "grand design" à la the Rome Treaty of the EEC or Cartagena (the Andean Pact Agreement) will stimulate each member country to make adjustments. Integration is viewed as a driving force and not as a result of growth. This does not leave out the possibility that the integration will be achieved step by step. The most important thing is that these steps constitute consistent parts of the "grand design" mentioned above.

Each of these approaches has its own strengths and weaknesses. Whether ASEAN has to choose one of the two, it depends on the real world it is facing. And one of the realities faced by ASEAN today is the diversity in economic development in general and in industry, in particular. Just in case ASEAN has to sign a free trade agreement, one can presume that this agreement will include many exceptions, which will afterwards become an object of controversy. It seems likely that ASEAN will be able to show better performance with its current approach than if it is bound imperatively by a "grand design." ASEAN should avoid the tendency of being too optimistic with regard to its will and capability to integrate, which has brought about disappointment in various regions (LAFTA, EAC, UDEAC, CACM),

It does not mean that the present ASEAN economic cooperation does not need more encouragements. ASEAN Preferential Trade still has to be stepped up by deepening the preferential rate and/or expanding its coverage. Countries with a more competitive industrial structure should consider the reduction of trade barriers at a higher rate than the industrially still backward country. Each country needs to identify its own sensitive industries that should be exempted from the intra-ASEAN liberalization to enable them to reduce across

⁷One of the proponents of the step by step approach is Prof. Sadli, Task Force member from Indonesia. As to his arguments, see Mohammad Sadli, ASEAN Industrial Cooperation, in *The Indonesian Quarterly* (CSIS), Jakarta, Vol. XI, 1983, p. 50.

the board tariffs for non-sensitive products. At the same time the arrest of protection at the present level should be considered, which among other things means that there will be no intra-ASEAN trade barrier for completely new products in ASEAN.

But cooperation in trade is not enough. The heart of the matter faced by ASEAN in its economic cooperation today does not seem to lie in trade barriers in the traditional sense of the word. Limitedness of export supply, especially in the secondary and tertiary sectors, is still a general phenomenon faced by ASEAN member countries and the approach in regional cooperation needs to be directed to overcoming this flaw. Therefore, the forms of functional cooperation initiated by ASEAN in the secondary and tertiary sectors, both between countries and among business communities, should be given priority which is at least equal to that of trade.

Such a cooperation will finally also be reflected in the increase of intra-ASEAN trade, though not in a short-term period. But there is no short-cut toward regional cohesiveness. What has been achieved by the EEC presently is not a result 36 years since the ratification of the Rome Treaty. The present form of regional integration movements has been embarked upon since the end of the 19th century in Europe.

The difficulties experienced by other regional groupings can perhaps be avoided by ASEAN. But the global economic situation today and its prospect in the years to come seem to be difficult to enable the ASEAN member countries to reach a high economic growth. It is certainly not impossible to promote economic relations with the countries that have to face economic slowdown. However, it would be a lot easier to strengthen economic cooperation if the economy of each member country performs a high rate of economic growth.

ASEAN and North-South Trade Issues

Hadi SOESASTRO

INTRODUCTION

Trade was an important factor for the sustained growth and development of the ASEAN economies during the decade of the 1970s. This fact is likely to continue throughout the decade of the 1980s and beyond. In their industrialization efforts, all ASEAN countries have shifted the emphasis -- some faster and in a more consistent fashion than others -- from an inward looking import substitution to an outward looking export orientation.

Indeed, GDP growth of the ASEAN countries of about 7 to 8 per cent per annum over the period 1970-1980 was accompanied by equally high rates of growth of merchandise trade, both of exports and of imports. It is no wonder that the ASEAN economies rank high among the open economies of the world. Except for the Philippines, the ratios of exports to GDP nearly doubled in all the other ASEAN countries, whereas the ratios of imports to GDP increased quite substantially for all ASEAN countries (Appendix 1). This fact suggests that in the process of development, the ASEAN countries have become more dependent on imports.

Apart from potential pressures on the balance of payments, greater dependence on imports should not necessarily be seen as a bad development. The greater concern to the ASEAN countries is the commodity composition of their international trade. Of the non-oil exports from the ASEAN region

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primary commodities still constitute about 85 per cent, whereas imports of manufactured goods into the ASEAN region have remained at the 60 per cent level of total imports. This situation is contrary to the objective of ASEAN countries' outward-looking industrialization strategy to horizontally -- rather than vertically -- integrate their economies into the world economy.

Dissatisfaction on the part of the ASEAN countries and LDCs in general with the international trading system already dates back some long time ago. The problems are too well known, and need no further elaboration. It was almost ten years ago when the Sixth Special Session of the UNGA in its call for a New International Economic Order (NIEO) adopted a Program of Action to deal with the economic problems faced by LDCs in a global and comprehensive fashion, covering the whole spectrum of activities involving North-South relations.

Problems of raw-materials and primary commodities were singled out and considered crucial to bring about changes in the international economic system and to help correct economic imbalances. Commodity problems were taken up by the UNCTAD Secretariat which in 1976 led to the adoption of the so-called Integrated Program for Commodities (IPC), including the establishment of a Common Fund, at UNCTAD IV in Nairobi. Thus far, all that has emerged from the IPC proposal is an international agreement on natural rubber and tin, hence involving only two of the ten "core" commodities (among 18 commodities) identified as feasible for international stocking and supply management.

The ASEAN countries, in accordance with their common stand on international economic issues, have actively participated in the negotiations on the Common Fund. ASEAN accorded high priority to these issues. The region's exports of rubber, palm oil, tin, coconut and other geographic specific commodities of mineral and agricultural origin feature prominently in world trade. ASEAN has pursued the negotiations at various levels, including in its dialogues with Japan, the United States, the European Community (EC) and other main trading partners.

More recently, the order of priority of the ASEAN countries in the various North-South negotiations seems to have shifted to problems of access to markets in industrial countries, largely in view of their progress in the production of manufactured goods. Protectionism, which in recent years has become a more pronounced feature in international trade, effectively discriminates against the exports of processed raw-materials and manufactured goods.

The protracted crisis in the world economy has eroded the multilateral trading system caused by the proliferation of unilateral measures in violation

of GATT's basic principles. The GATT Ministerial Meeting of November 1982 failed to assure the commitments of national governments to abide by GATT's principles, namely non-discrimination and multilateral. The Ministerial Declaration merely acknowledged the worsening situation globally and failed to deal with the important problems of safeguards and dispute settlement.

Safeguards, which are selective and discriminatory in nature, are more often applied currently. Other measures, such as voluntary export restraint and orderly marketing arrangements, also violate GATT's principles. Solution to many of these problems has tended to be sought on a bilateral or regional basis. This raises the question as to whether the international trading system in the years ahead would move towards bilateralism or regionalism.

This in turn leads to the question of ASEAN's stand and strategy in regard to the North-South negotiations in the post-Cancun era. Global negotiations seem to become more difficult to pursue, especially when the industrial economies of the North remain stagnant. The coming Summit of the industrial countries, it is reported, has decided not to bring the North-South issues into the agenda.

Some in ASEAN have argued that ASEAN's position on the North-South Dialogue should remain inseparable from that of the Group of 77, and that ASEAN should not seek a separate path. Others have argued that ASEAN should forge ahead with its own arrangements, stressing ASEAN's own interest first and move towards a more comprehensive level only when a base agreement has been reached with one or two of the major industrial countries. Thus, this view further suggests that the emphasis should be placed on ASEAN dialogues with its main trading partners.¹

This paper does not attempt to provide a definite answer to the above question of strategy, but rather it is meant to set the stage for further and more systematic examination of the direction to be pursued by ASEAN in dealing with North-South issues, especially in the area of trade, in the years to come. Fresh approaches definitely are called for.

The following sections in this paper examines: (a) the changing structure of ASEAN countries' trade; and (b) ASEAN countries' trade with the industrial

¹See the discussion by Narongchai Akrasanee, "ASEAN and the New International Economic Order; A View from Thailand," and Dorodjatun Kuntjoro-Jakti, "ASEAN, Japan and NIEO: Towards a New Strategy of Dialogue," both in B.A.R. Mokhzani, Khong Kim Hoong, R.J.G. Wells (eds.), *ASEAN Economic Cooperation and the New International Economic Order* (Kuala Lumpur: Malaysian Economic Association, 1980).

countries, especially Japan, the United States, and the European Community. The paper concludes with a discussion on ASEAN's efforts to improve its trade relations with those three main trading partners through the mechanism of its so-called dialogues.

ASEAN'S TRADE STRUCTURE

The structure of ASEAN's foreign trade is still dominated by primary commodities on the export side and by manufactured goods on the import side. Primary commodities (SITC 0-4) account for 70 per cent of ASEAN's total exports, whereas manufactures (SITC 5-8) constitute about 60 per cent of total ASEAN's imports.

ASEAN's commodity exports are concentrated in only a few products (Appendix 2). Indonesia's three major export commodities, namely petroleum, jungle wood, and rubber accounted for 75 per cent of its total exports in 1978-1980. The share of Malaysia's five major export commodities, namely rubber, palm oil, tin, logs and timber, and petroleum, was over 70 per cent in 1978-1980. Philippines major export commodities, namely sugar, coconut products, copper and wood, accounted for 46 per cent of its exports in 1978-1980. Thailand has relatively a more diversified structure of commodity exports, but the six major export commodities, namely rice, corn, sugar, tapioca, rubber, and tin, accounted for 53 per cent of its total exports in 1978-1980. Petroleum products and processed rubber alone constitute about 40 per cent of Singapore's exports.

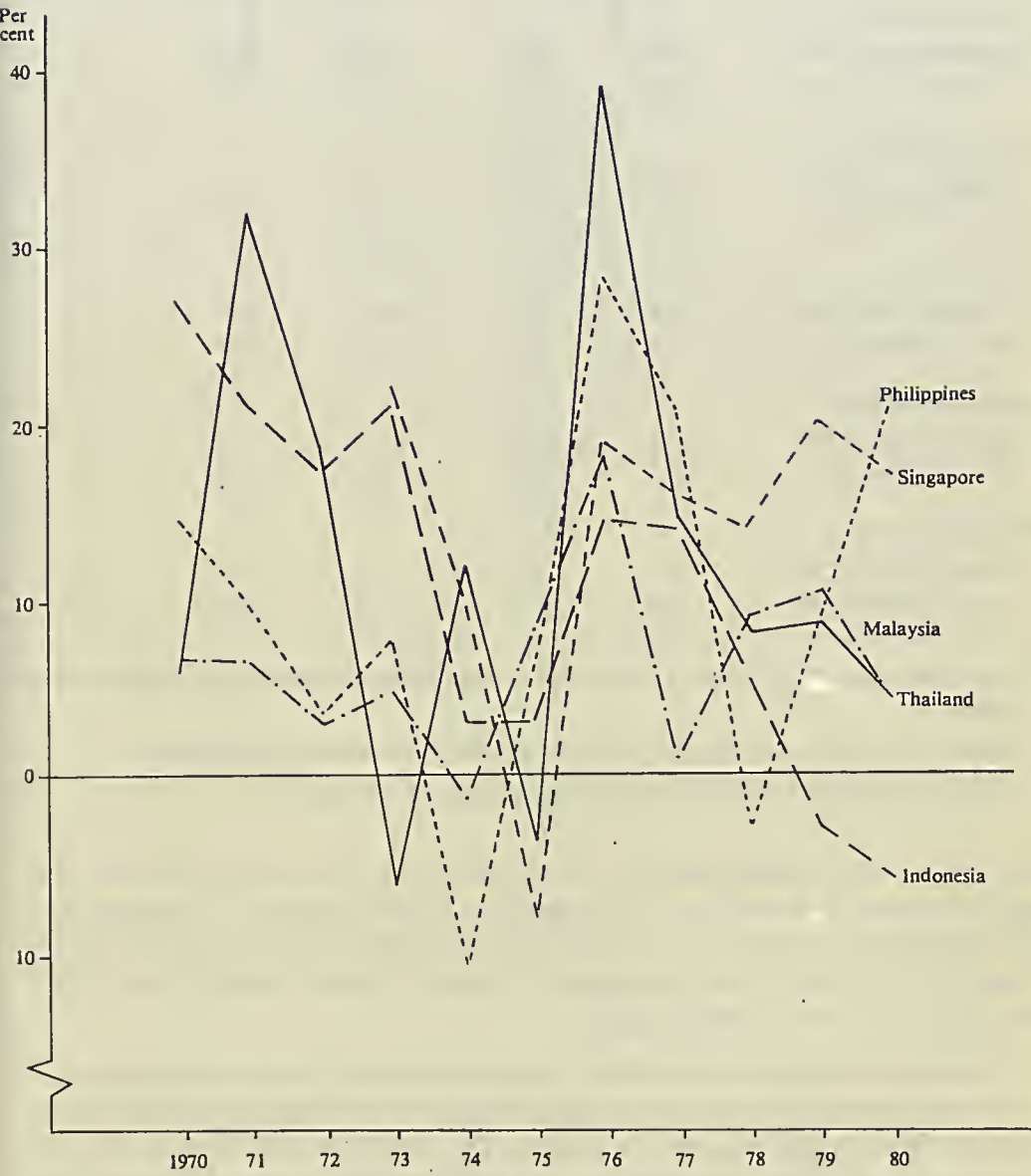
ASEAN shares the "commodity problems" of many other LDCs: in the short-term, prices are subject to fluctuations, and over the long-term, prices generally declined in real terms. LDCs in general have been plagued by, and their development plans affected by, fluctuations in export earnings. Without going into a detailed examination of price instability of primary commodities and its effects upon development, Table 1 suffices to illustrate the seriousness of the problem.

The predominance of primary commodity in ASEAN export structure is not only a source of great fluctuations in export earnings but also may cause fluctuations in the growth of exports in volume terms (see Diagram 1).² Declining prices over the long-term, while prices of capital goods continue to rise,

²This may also cause ASEAN's exports to some countries or regions, such as the EC, to be highly specialized, which in turn becomes a source of conflict. See Narongchai Akrasanee, "ASEAN-EC Trade Relations: An Overview," in Narongchai Akrasanee and Hans Christoph Rieger (eds.), *ASEAN-EEC Economic Relations* (Singapore: ISEAS, 1982).

Diagram 1

GROWTH OF EXPORTS OF ASEAN COUNTRIES



(Growth rates are based on changes in Export Volume Indices)

Table 1

PRICE DEVELOPMENT OF SELECTED ASEAN EXPORT COMMODITIES^a

	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
<i>Copra</i> (Philippines)					
- Change in prices (%) ^b	-39.2	453.3	-74.0	99.0	- 0.9
- Price variation (%) ^c	20.8	62.9	52.8	28.0	22.6
<i>Palm Oil</i> (Malaysia)					
- Change in prices (%)	-19.5	202.7	-41.7	52.4	2.6
- Price variation (%)	9.8	49.1	26.5	18.8	7.7
<i>Rice</i> (Thailand)					
- Change in prices (%)	-13.5	333.1	-54.0	40.4	25.3
- Price variation (%)	10.2	54.1	33.5	18.8	13.4
<i>Rubber</i> (Malaysia)					
- Change in prices (%)	-34.2	214.4	-28.1	22.8	51.7
- Price variation (%)	13.8	39.4	20.5	13.8	17.1
<i>Tin</i> (All Sources)					
- Change in prices (%)	- 2.2	100.0	-15.9	90.2	31.5
- Price in variation (%)	3.6	37.2	11.8	24.0	12.9

^a Price developments are calculated on the basis of commodity price indices (1975 = 100), quarterly data.

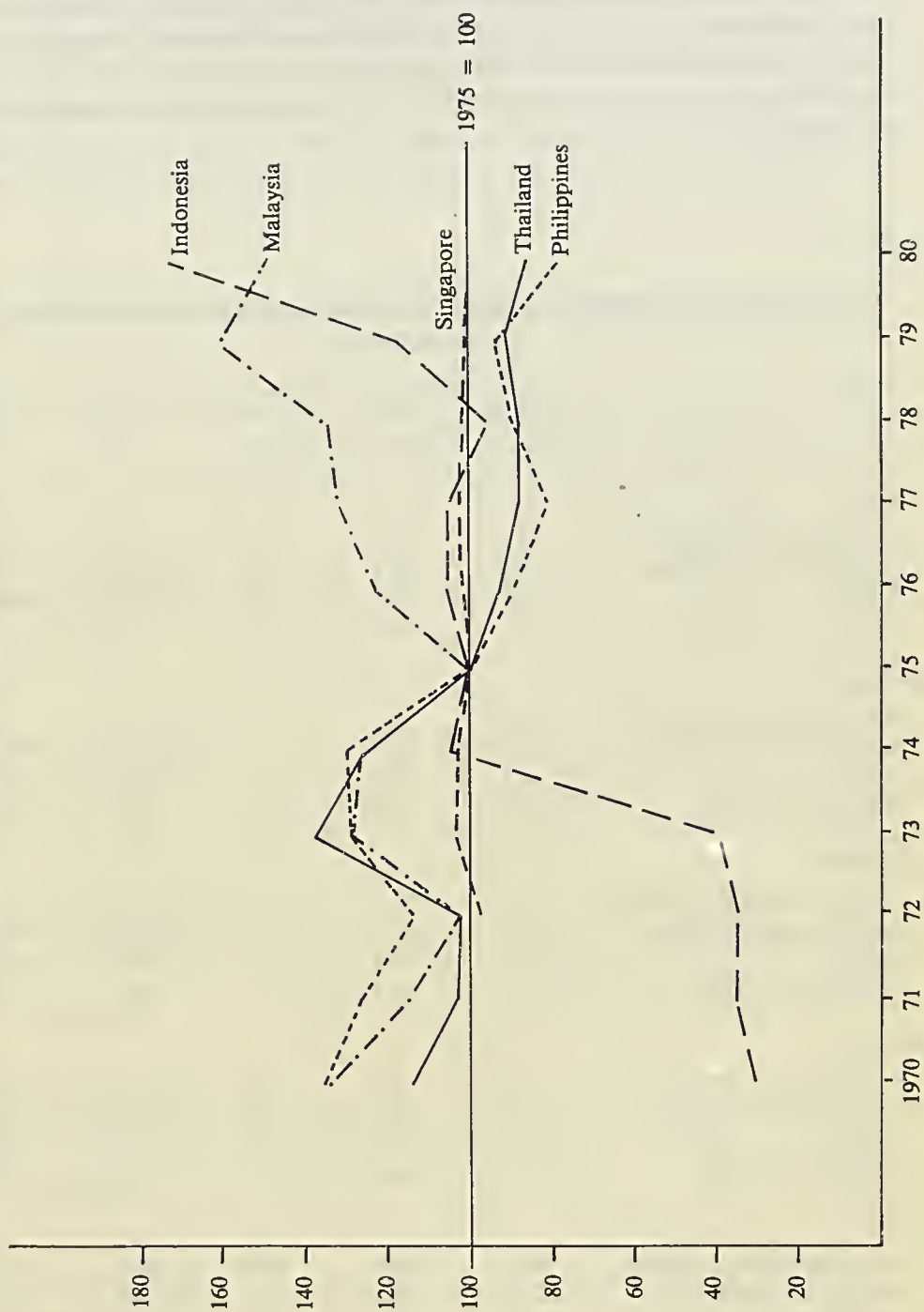
^b Change in prices from first quarter of beginning year to last quarter of ending year.

^c Denotes coefficient of variation (standard deviation divided by mean).

have led to deteriorating terms of trade, which over the period 1970-1980 was very pronounced in the case of Thailand and the Philippines. Indonesia and Malaysia have improved their terms of trade, primarily because of the big increases in the price of oil. Singapore's terms of trade remains quite stable throughout the period (Diagram 2).

During the decade of the 1970s, the proportion of manufactured goods in the exports of ASEAN countries increased quite remarkably. In the case of Indonesia, manufactures exports accounted for only 3 per cent in 1970-1972 and 4.6 per cent in 1978-1980. However, of total non-oil exports, the proportion has increased from about 5 per cent in 1970-1972 to 15 per cent in 1978-1980. Similarly, in the case of Malaysia, the proportion of manufactures in its total exports increased only from 27 per cent in 1970-1972 to 28.5 per cent in 1978-1980, but in terms of non-oil exports, the share of manufactured goods

TERMS OF TRADE MOVEMENTS OF ASEAN COUNTRIES



rose from 29 per cent to 35 per cent. The increase in the share of manufactures exports was rather dramatic for the Philippines and Thailand, from 8 per cent to 23 per cent and from 17 per cent to 33 per cent, respectively. Even in the case of Singapore, the share continued to increase from 34 per cent to 47 per cent (Table 2).

Table 2

COMPOSITION OF EXPORTS OF ASEAN COUNTRY BY BROAD CATEGORIES
(per cent of total)

	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
<i>Indonesia</i>					
Food, Beverages & Tobacco	14.1	9.6	6.2	8.9	7.8
Raw-Materials excl. Fuels	41.2	28.7	19.1	18.8	18.9
Fuels	41.3	57.2	71.8	69.0	68.6
Manufactured Goods	3.0	4.2	2.8	3.3	4.6
<i>Malaysia</i>					
Food, Beverages & Tobacco	6.9	6.5	6.1	5.7	4.5
Raw-Materials excl. Fuels	56.9	58.8	53.8	51.8	47.7
Fuels	8.2	6.9	11.3	14.2	19.0
Manufactured Goods	27.0	27.0	28.3	27.8	28.5
<i>Philippines</i>					
Food, Beverages & Tobacco	29.9	32.0	36.0	28.0	21.7
Raw-Materials excl. Fuels	60.3	54.1	42.7	40.9	40.3
Fuels	1.6	0.9	1.2	0.7	0.5
Manufactured Goods	8.1	10.3	13.7	20.0	23.4
<i>Singapore</i>					
Food, Beverages & Tobacco	11.4	7.8	6.5	6.7	6.0
Raw-Materials excl. Fuels	26.7	22.5	17.8	17.8	16.1
Fuels	24.5	25.5	31.8	29.4	25.8
Manufactured Goods	34.2	42.1	42.3	44.6	46.8
<i>Thailand</i>					
Food, Beverages & Tobacco	50.2	50.9	59.0	55.9	47.8
Raw-Materials excl. Fuels	25.5	22.2	16.6	15.4	15.4
Fuels	1.0	1.1	0.5	0.1	0.3
Manufactured Goods	17.1	20.6	21.1	25.9	32.9

Source: IMF, *International Financial Statistics*, Supplement on Trade Statistics, Supplement Series No. 4, 1982.

On the import side, the shares of manufactured goods have declined in all ASEAN countries, except for Malaysia. However, in fuel imports are separated out, the shares have remained at high levels (70 to 80 per cent). In the case of Indonesia it was 86 per cent in 1970-1972 and 82 per cent in 1978-1980. In Malaysia's non-oil import trade the share increased from 68 per cent to 78 per cent; the same holds true for Singapore, namely from 69 per cent in

Table 3

COMPOSITION OF IMPORTS OF ASEAN COUNTRIES BY BROAD CATEGORIES
(per cent of total)

	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
<i>Indonesia</i>					
Food, Beverages & Tobacco	11.2	11.6	13.8	15.3	14.3
Raw-Materials excl. Fuels	2.0	2.8	3.4	4.3	5.2
Fuels	2.3	3.1	6.0	9.5	16.5
Manufactured Goods	84.3	82.4	76.8	70.8	68.1
<i>Malaysia</i>					
Food, Beverages & Tobacco	19.7	18.9	16.9	16.0	13.4
Raw-Materials excl. Fuels	7.3	6.6	6.2	5.8	5.1
Fuels	11.1	8.3	11.9	12.3	12.7
Manufactured Goods	60.5	65.1	64.3	65.2	68.2
<i>Philippines</i>					
Food, Beverages & Tobacco	12.9	13.0	10.2	8.8	7.4
Raw-Materials excl. Fuels	6.4	6.0	4.6	5.0	4.8
Fuels	12.6	15.3	21.6	23.0	23.9
Manufactured Goods	67.7	63.0	57.7	54.8	53.6
<i>Singapore</i>					
Food, Beverages & Tobacco	13.0	10.4	8.7	8.6	7.1
Raw-Materials excl. Fuels	11.6	11.2	9.3	10.4	9.7
Fuels	14.1	17.1	25.3	25.6	25.9
Manufactured Goods	59.0	59.7	55.4	54.0	56.0
<i>Thailand</i>					
Food, Beverages & Tobacco	5.6	4.7	4.1	4.2	4.0
Raw-Materials excl. Fuels	6.3	7.5	6.8	7.3	6.9
Fuels	9.8	13.8	21.6	22.3	24.7
Manufactured Goods	73.6	70.4	65.3	63.1	59.5

Source: Same as Table 2.

1970-1972 to 76 per cent in 1978-1980. For the Philippines and Thailand, the shares of manufactures in non-oil imports actually declined from 77 per cent to 70 per cent and from 91 per cent to 79 per cent, largely due to the need to compensate for higher oil imports (Table 3 exhibits the composition of ASEAN countries' total imports).

ASEAN'S TRADE WITH INDUSTRIAL COUNTRIES

About 60 per cent of ASEAN's export trade is with the industrial countries. The magnitude differs among the ASEAN countries, namely over 75 per cent for Indonesia and the Philippines, slightly below 60 per cent for Malaysia and Thailand, and about 40 per cent for Singapore.

The shares of industrial countries in the total exports from Indonesia, Malaysia and Singapore have increased during the 1970-1980 period. In Indonesia's case, this was due to increased oil exports, mainly to the industrial countries. ASEAN's market share in the industrial countries has increased from about 1.7 per cent in 1970 to about 3 per cent in 1980, in line with the increase in its market share in world export trade from 2 per cent in 1970 to about 3.5 per cent in 1980. Only the Philippines' share declined from 0.42 per cent to 0.32 per cent over that period (Appendix Table 3).

Over 90 per cent of total ASEAN exports to the industrial countries are directed towards markets in Japan, the US, and the EC. Japan definitely is the most important market, followed by the US and the EC. In 1980, about 27 per cent of ASEAN export trade was with Japan, 17 per cent with the US, and 13 per cent with the EC (Table 4). On the other hand, ASEAN's shares in the total imports of Japan, the US, and the EC were 15 per cent, 5 per cent and 1.2 per cent, respectively, in 1980.

The order of importance of the three major trading partners differs among the individual ASEAN countries. In 1980, Indonesia's export to Japan accounted for close to 50 per cent of its total exports. The shares of US and the EC were 20 per cent and 6 per cent, respectively. Japan's share in Malaysia's exports (23 per cent) was higher than those of the US (16 per cent) and the EC (17 per cent). In the case of the Philippines, both US and Japan were equally important, although the share of the EC was relatively high (17 per cent). The US and the EC both ranked higher than Japan in Singapore's export trade. The EC had the highest share only in the case of Thailand.

The relative importance of the different trading partners to the individual ASEAN countries is also exhibited in Table 5. The intensity index of Indone

ASEAN COUNTRIES' EXPORTS TO INDUSTRIAL MARKET ECONOMIES

(million US\$)

	World (1)	Industrial Countries (2)	Japan (3)	US (4)	EC (5)	$\frac{(2)}{(1)}$	$\frac{(3)}{(1)}$	$\frac{(4)}{(1)}$	$\frac{(5)}{(1)}$	$\frac{(3)+(4)+(5)}{(1)}$
<i>Indonesia</i> (% of total ASEAN) 1971	1,234 (18.8)	919 (23.9)	550 (35.0)	192 (16.4)	176 (17.7)	74.5	44.6	15.6	14.3	74.4
1980	21,909 (32.9)	17,002 (41.9)	10,793 (60.5)	4,303 (38.2)	1,391 (16.1)	77.6	49.3	19.6	6.3	75.3
<i>Malaysia</i> (% of total ASEAN) 1971	1,639 (24.9)	856 (22.2)	299 (19.0)	208 (17.8)	300 (30.2)	52.2	18.2	12.7	18.3	49.2
1980	12,960 (19.5)	7,712 (19.0)	2,958 (16.6)	2,119 (18.8)	2,193 (25.4)	59.5	22.8	16.4	16.9	56.1
<i>Philippines</i> (% of total ASEAN) 1971	1,121 (17.0)	997 (25.9)	391 (24.9)	453 (38.8)	138 (13.9)	88.9	34.9	40.4	12.3	87.6
1980	5,790 (8.7)	4,350 (10.7)	1,540 (8.6)	1,594 (14.2)	984 (11.4)	75.1	26.6	27.5	17.0	71.1
<i>Singapore</i> (% of total ASEAN) 1971	1,755 (26.7)	595 (15.5)	124 (7.9)	207 (17.7)	230 (23.1)	33.9	7.1	11.8	13.1	32.0
1980	19,377 (29.1)	7,801 (19.2)	1,560 (8.7)	2,424 (21.5)	2,377 (27.6)	40.3	8.1	12.5	12.3	32.9
<i>Thailand</i> (% of total ASEAN) 1971	828 (12.6)	481 (12.5)	206 (13.1)	109 (9.3)	150 (15.1)	58.1	24.9	13.2	18.1	56.2
1980	6,501 (9.8)	3,759 (9.3)	982 (5.5)	823 (7.3)	1,674 (19.4)	57.8	15.1	12.7	25.7	53.6
ASEAN 1971	6,577	3,848	1,570	1,169	994	58.5	23.9	17.8	15.1	56.8
1980	66,537	40,624	17,833	11,263	8,619	61.1	26.8	16.9	13.0	56.7

Source: Same as Table 2.

sia's export trade with Japan is the highest in the ASEAN trade matrix with Japan, the US and the EC. Export intensity indices of less than or greater than one indicates over - or underrepresentation of one country in another country's export.³ Different intensities may be attributed to a variety of factors, including geographical proximity, historical ties, complementarity of trade structures, investment and aid links and general competitiveness of a country's exports.

Indonesia's highest export intensity index and Singapore's lowest export intensity index to Japan among ASEAN countries seem to suggest the importance of the complementarity factor in trade. A comparison of the individual ASEAN countries export intensity index with each of the three major trading partners, where the intensity indices in exports to Japan are highest may suggest the importance of investment links in trade relations. Historical ties may explain the higher intensity indices in the Philippines' exports to the US as compared to those of the other ASEAN countries, but this factor can be negated if one considers the higher intensity indices in Thailand's exports to the EC as compared to those of Malaysia, Singapore and Indonesia.

Table 6 shows the commodity composition of ASEAN countries' exports to Japan, the US and the EC in 1979. Of ASEAN's total exports to Japan over 80 per cent comprised metals and fuels; food and the like (SITC 0-1, 4) as well as manufactures (SITC 5-8) each constituted less than 10 per cent. The share of ASEAN's metal and fuels exports to the US was about 47 per cent, that of manufactures about 35 per cent, and that of food and the like about 13 per cent. The structure of exports to the EC differed from the above in that food and the like accounted for over 30 per cent, manufactures accounted for 38 per cent, and that the share of metals and manufactures was only 28 per cent.

The different commodity composition of the individual ASEAN countries export trade with the three major trading partners suggests the different prob-

³The export intensity of one country's trade with another is formulated as:

$$x_{ij} = \frac{X_{ij}}{X_i} \bigg/ \frac{M_j}{M_w - M_i}$$

- where: X_{ij} = exports of country i to country j
 X_i = total exports of country i
 M_j = total imports of country j
 M_w = total world imports
 M_i = total imports of country i

Table 5

INTENSITY OF ASEAN COUNTRIES' EXPORT TRADE WITH JAPAN, THE US AND EC

	Export Intensity Index ^a					
	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN
Exports to:						
<i>Japan</i>						
1970-72	7.81	3.41	5.80	1.58	3.82	4.26
1972-74	7.44	2.45	4.94	1.18	3.41	3.77
1974-76	6.32	2.40	4.41	1.37	3.63	3.79
1976-78	6.03	3.16	3.40	1.46	3.27	3.83
1978-80	6.46	3.27	3.54	1.32	2.75	3.68
<i>US</i>						
1970-72	1.07	1.08	2.75	1.01	0.90	1.32
1972-74	1.19	0.90	2.79	1.10	0.71	1.24
1974-76	1.86	1.12	2.61	1.05	0.71	1.47
1976-78	1.85	1.18	2.27	1.04	0.70	1.47
1978-80	1.53	1.23	2.05	0.99	0.82	1.30
<i>EC</i>						
1970-72	0.41	0.53	0.29	0.31	0.45	0.40
1972-74	0.24	0.54	0.33	0.37	0.40	0.36
1974-76	0.16	0.58	0.42	0.36	0.47	0.36
1976-78	0.21	0.53	0.48	0.37	0.61	0.40
1978-80	0.19	0.47	0.47	0.33	0.65	0.36

^a Averages for the respective periods.

lems -- at least in degree -- that each of the ASEAN countries face in their trade relations and with each of the different trading partners. Nonetheless, all ASEAN countries have been able to formulate common positions, either with regard to commodity issues or on problems of access to markets, as exemplified in the various ASEAN dialogues with Japan, the US, the EC, or other countries, which the ASEAN countries have embarked on since the mid-1970s. The mechanism of ASEAN formal dialogues with extra regional countries has often been cited as most successful. Trade matters have been given highest priority in those dialogues. One wonders, however, to what extent they have been effective. The developments of ASEAN intensity indices of its exports with the three major trading partners (Table 5) may be too simplistic an indicator to be used to arrive at definite conclusions. However, one needs to

Table 6

STRUCTURE OF ASEAN COUNTRIES' EXPORT TRADE WITH JAPAN,
THE US AND EC BY COMMODITIES, 1979
(per cent of total)

	All Commodities	Food, Live Animals; Beverages, Tobacco; Animal/Vegetable Oil/Fat (SITC 0-1, 4)	Metals, excl. Fuels (SITC 2)	Mineral Fuels (SITC 3)	Chemical (SITC 5)	Basic Manufactures (SITC 6)	Machines, Transport Equipment (SITC 7)	Miscellaneous Manufactured Goods (SITC 8)	Goods Not Classified (SITC 9)	Value of Exports (millions US\$)
<i>Indonesia</i>										
to Japan	100.0	3.7	15.4	79.3	(.)	1.5	(.)	(.)	(.)	7,192
US	100.0	8.9	10.3	80.1	0.2	0.2	0.1	0.2	(.)	3,171
EC	100.0	53.0	19.6	8.1	0.6	16.0	0.8	1.4	0.5	1,173
<i>Malaysia</i>										
to Japan	100.0	7.2	45.0	33.3	0.1	11.2	2.3	0.9	(.)	2,592
US	100.0	7.1	13.0	28.6	0.2	19.7	28.8	2.4	0.2	1,911
EC	100.0	24.5	41.3	0.5	0.1	19.7	8.0	5.6	0.3	1,961
<i>Philippines</i>										
to Japan	100.0	23.1	59.3	(.)	7.3	2.8	0.7	2.9	3.9	1,204
US	100.0	44.0	6.9	-	0.2	10.9	1.3	12.9	23.8	1,386
EC	100.0	39.6	25.2	-	0.1	9.1	2.0	16.7	7.3	928
<i>Singapore</i>										
to Japan	100.0	5.2	5.7	65.4	4.8	1.9	8.5	2.9	5.6	1,365
US	100.0	3.2	12.8	6.5	0.2	7.1	56.3	11.2	2.7	1,962
EC	100.0	7.9	27.0	1.7	0.5	7.9	28.4	13.6	13.0	1,882
<i>Thailand</i>										
to Japan	100.0	40.9	37.0	-	1.3	15.8	0.3	2.0	2.7	1,112
US	100.0	18.4	19.0	-	(.)	36.5	6.3	15.4	4.4	588
EC	100.0	46.0	7.0	(.)	0.3	32.0	0.3	9.0	2.7	1,233
<i>ASEAN</i>										
to Japan	100.0	9.3	25.8	55.4	1.3	4.7	1.4	0.7	1.4	13,465
US	100.0	13.2	11.5	35.6	0.2	9.8	19.0	6.0	4.7	9,018
EC	100.0	30.5	26.0	1.9	0.3	16.7	12.4	9.0	3.2	7,177

make note of the fact that those indices have remained stable -- rather than increasing -- throughout the period 1970-1980, and they even seem to decline in ASEAN exports to Japan.

ASEAN DIALOGUES WITH JAPAN, THE US AND THE EC

The Meeting of ASEAN Heads of Government in 1976 recognized the necessity to increase ASEAN economic cooperation with "third countries," group of countries and international organizations, with the following objectives:⁴

- a. To accelerate joint efforts to improve access to markets outside ASEAN for their raw-materials and finished products by seeking the elimination of all trade barriers in those markets, developing new usage for these products and in adopting common approaches and actions in dealing with regional groupings and individual economic powers;
- b. To cooperate in the field of technology and production methods in order to increase the production and improve the quality of export products, as well as to develop new export products with a view of diversifying exports;
- c. To cooperate in adopting joint approaches to international commodity problems and other world economic problems such as the reform of international trading system, the reform of international monetary system and transfer of real resources, in the United Nations and other multilateral fora, with a view to contributing to the establishment of the New International Economic Order (NIEO);
- d. To give priority to the stabilization and increase of export earnings of those commodities produced and exported by ASEAN through commodity agreements including buffer stock schemes and other means.

Increased economic cooperation with extra-regional countries has been facilitated through the mechanism of formal dialogues. To date, ASEAN has established cooperative dialogues with Australia, Canada, the EC, Japan, New Zealand, the US, and the UNDP.

Dialogues with both Japan -- under the so-called ASEAN-Japan Forum -- and the US -- the ASEAN-US Dialogue -- were institutionalized in 1977. The formal dialogue between ASEAN and the EC dated back to 1975 with the establishment of the ASEAN-EC Joint Study Group (JSG) which was pre-

⁴See ASEAN Secretariat, *10 Years ASEAN*, Jakarta, 1978.

ceded by the creation of a Special Coordinating Committee (SCCAN) in 1972 to insitutionalize ASEAN-EC relations.

From the beginning, the dialogues have dealt with global North-South issues and their implications for ASEAN, especially in the area of stabilization of commodity prices, and trade issues, namely with regard to improvements of the GSP (generalized system of preferences), the MTN (multilateral trade negotiations) and the MFA (multi-fibre arrangements), apart from problems relating to direct investment and development cooperation. ASEAN has made it clear to its dialogue partners that its position on the North-South Dialogues is inseparable from that of the Group of 77. Nevertheless, through the dialogues with third countries, ASEAN seeks to find accomodations with its dialogue partners on a set of issues, arguing that regional or bilateral talks can play an important role in facilitating negotiations in world fora.

Of the several proposals put by ASEAN to its dialogue partners, ASEAN sought specific actions in the area of trade, namely: (a) the establishment of a STABEX scheme to stabilize export earnings, through loans by countries such as Japan and the US; and, (b) greater market access for ASEAN products in the industrial countries.

COMMODITY ISSUES AND STABEX

ASEAN's basic policy objectives in respect of commodity exports are threefold: (a) the attainment of more stable prices; (b) the steady long-term growth of export earnings in real terms; (c) the securing of improved market access for raw and processed primary commodities to the markets of the industrial countries.

In the past, the ASEAN countries have relied on international commodity price stabilization schemes and on the CFF (compensatory financing facility) of the IMF to solve commodity export instability problems. Experiences have shown the serious drawbacks of international commodity agreements based on supply control and buffer stock mechanisms. These schemes have created additional problems which relate to financing of the buffer stock, fixing the basic price range, administering the quota regulations, etc. It should also be borne in mind that theoretically, any supply control program introduces rigidity into production and trade and thereby, hampers movements towards more efficient resource allocation.⁵ The existing IMF CFF also has been found to be inadequate.

⁵See Mohamed Ariff, *Malaysia and ASEAN Economic Cooperation* (Singapore: ISEAS, 1981).

ASEAN's support for the IPC is based on the fact that the objectives of the IPC go beyond stabilization of commodity prices. The IPC also aims at improvement of competitiveness of natural products, marketing and distribution as well as product diversification and expansion of processing of primary products.

At the global level, ASEAN has participated actively in the negotiations on the Common Fund of the IPC to finance commodity buffer stocks and other measures to stabilize commodity prices. ASEAN also has taken active part in the negotiations on individual commodities of interest to ASEAN, such as tin and natural rubber. These negotiations are carried out together with the negotiations on the Common Fund so that specific commodity agreements could benefit from the Common Fund when it becomes operational.

A number of commodities of interest to ASEAN, such as sugar and vegetable oils and seeds, do not lend themselves to the buffer stock approach. Hence, an alternative solution is called for. In this regard, the ASEAN countries consider the Lome type of STABEX arrangement to have merit as a supplementary measure to the buffer stock operations for commodities under the IPC. At the ASEAN-Japan Summit in Kuala Lumpur, ASEAN proposed to the Japanese to work out a similar scheme between ASEAN and Japan. The US and the EC were also approached in the same fashion.

The Japanese seemed to have been willing to consider the proposal. The US Administration, however, rejected STABEX in favor of continued efforts in the globally based North-South negotiations. The US State Department specifically opposed Japanese involvement in a STABEX scheme. In the US view, problems of instability in export earnings are more effectively addressed through IMF's CFF.

In the First ASEAN-US Dialogue, STABEX was proposed as a transitional arrangement -- pending finalization of the IPC -- which could at a later stage be globalized. In the Second ASEAN-US Dialogue in 1978, it was suggested that STABEX should be viewed as an additional and supplementary measure to the Common Fund and individual commodity arrangements, and not as replacement. With the agreement reached on the establishment of Common Fund in 1980, the STABEX proposal seemed to have been given lower priority on the agenda of ASEAN Dialogues.

A view from ASEAN itself thought it to be unfortunate that ASEAN has proposed the STABEX scheme. It was argued that: (a) the IMF CFF in fact is a good scheme and that the conditionalities attached to it are negotiable and manageable; (b) STABEX, in the form of soft loans, is suitable for the poor

ACP (African, Carribean and Pacific) countries who are former colonies of the EC, and thus imply certain moral responsibility on the part of the EC to help; but these same reasons make STABEX unsuitable for ASEAN.⁶

In the Fifth ASEAN-Japan Forum in 1982, ASEAN urged Japan to give priority to the eventual establishment of a globalized STABEX type arrangement, in support of the position of the Group of 77 that such a facility should be additional to the IMF-CFF, other facilities and to actions taken under the IPC to deal with problems of price stabilization.

Similarly, in view of the slow progress in the implementation of the Common Fund, ASEAN urged Japan, which has ratified the Common Fund Agreement, to support international moves to press on with the efforts in the Preparatory Commission. In particular, ASEAN stressed the importance of strengthening the Second Account of the Common Fund which facilitates: (a) R & D aimed at strengthening the position of raw-materials; (b) transport, marketing and distribution of raw-materials; (c) development and diversification of ASEAN's natural resources; (d) local processing of raw-materials.

In regard to solving the commodity problems, ASEAN noted the greater and more difficult task towards the conclusion of international commodity agreements which constitute the pillars of the Fund, although negotiations on the Sixth International Tin Agreement (6th ITA) and on the International Natural Rubber Agreement (INRA) have been concluded within the framework of the IPC.

Apart from the above international commodity agreements, ASEAN continues to seek close support of its dialogue partners in several other areas, such as vegetable oil and seeds, tropical timber and timber product, banana, and hard fibres.

In summing up, it can be said that ASEAN's joint approaches through the mechanism of ASEAN dialogues with third countries have failed to bring about tangible results insofar as bilateral or regional arrangements -- such as a regional STABEX for ASEAN -- are concerned. While it may be true that ASEAN's diplomacy on commodity issues at the global level may have had some effects, the difficulties in the way of creating and operating commodity prices stabilization arrangements remain insuperable.

The 14th ASEAN Economic Ministers Meeting in Singapore in November 1982 has considered the need for fresh thinking and new initiatives in the area

⁶Narongchai Akrasanee, *op. cit.*

of commodities of interest to ASEAN, including to reassess its position regarding the IPC. As already stated elsewhere some time ago, ASEAN countries may be advised well "to pool their resources to step up R & D jointly and remain competitive in raw-material production rather than attempt to raise raw-material prices through commodity control."⁷

TRADE ISSUES AND ACCESS TO MARKETS

The current international trading system is under great stress as manifested in the various difficulties and contradictions in the conduct of trade. These difficulties arise from the even increasing degree of discrimination and the proliferation of flexible measures of protection (i.e. safeguards); the decline of the unconditional MFN principle (as regard to the implementation of the MTN Agreements/Codes on non-tariff barriers); the greater tendency to resort to bilateral procedures (e.g. voluntary export restrictions); and the hardened commercial policy of major importing countries, particularly on agricultural products.

The 14th ASEAN Economic Ministerial Meeting in November 1982 has taken a clear position on the above issues in preparation of the GATT Ministerial Meeting in the same month. Most of the issues have been dealt with in the various ASEAN dialogues with major trading partners, focusing primarily on improved ASEAN access to markets in industrial countries.

In regard to this, ASEAN has sought to eliminate existing barriers and increase the range of their goods -- manufactured goods in particular -- which could enter the markets in the industrial countries free of duty or under certain preferences.

Special Barriers

Special barriers to manufactured exports from LDCs have arisen from three distinct causes. Industrial tariff reductions have largely come about since World War II through reciprocal concessions among industrial countries on a most-favored-nation (MFN) basis. As a result, the US applies lower tariffs to manufactured exports of the EC, for example, than it does to those of most LDCs.

Tariff escalation is another source of special barriers. Industrial countries' tariffs weigh more heavily on manufactures than on raw-materials. Quotas

⁷Mohamed Ariff, *op. cit.*

and a variety of voluntary agreements constitute another major source of special barriers. Under the trade rules adopted by the industrial countries, a sudden surge of imports can be met with trade restrictions (safeguards).

The ASEAN memorandum on protectionism, presented at the Second ASEAN-US Dialogue, cited the counterfailing duty cases on textiles and garments being brought against ASEAN countries by the US Treasury on the grounds that their production is subsidized. This issue was finally resolved in ASEAN's favor. ASEAN also has brought its disappointments with the MFA to the US attention since the first dialogue.

In its dialogues with Japan, ASEAN reiterates its disappointments with the market access for ASEAN products into Japan, and continues to urge Japan to take action to liberalize tariff and non-tariff measures imposed on ASEAN. Although slow, the Japanese seem to have been quite forthcoming in response to some of ASEAN's requests, such as on banana exports as announced in the recent ASEAN visit of Prime Minister Nakasone.

Special Treatment

To counter both special barriers to exports and high production cost, the LDCs have urged the industrial world to make a unilateral cut in tariff on products imported from LDCs.

In the various ASEAN dialogues, trade issues in the MTN have been raised by ASEAN, and the dialogues partners have been urged to fulfill their commitments set forth in the Tokyo Declaration as well as to improve their offers in terms of product coverage, depth of cut and accelerated staging. In the MTN, the US chose to offer permanent MFN reductions but expected some reciprocity. Other industrial countries focussed their concessions for tropical products on their existing systems of preferences.

Tariff-cutting formula adopted at the MTN is believed to have a substantial effect on the exports of developing countries. In the First ASEAN-US Dialogues, for example, ASEAN has submitted a list of products to be included in the US offers, and later each ASEAN country has indicated the extent of reciprocity it could grant to the US in accordance with the Tokyo Declaration. The US agreed to give concessions to ASEAN exports, among others on coconut oil imports from the Philippines on a zero tariff starting January 1981.

In the ASEAN dialogues, considerable attention was given to improvements in the GSP. ASEAN deems the GSP to be an important instrument for

the expansion of its exports and the promotion of its industries. Lists of products proposed for inclusion in the GSP schemes of Japan, the US, or the EC have regularly been submitted jointly by the ASEAN countries in the dialogues. In addition, a number of specific changes were proposed by ASEAN, covering: eligibility of all ASEAN countries (when Indonesia was excluded as a beneficiary country as an OPEC member); liberalization of the competitive need limitation; liberalization and simplification of the cumulative rules of origin (CRO); simplification of procedures and data requirements for product requests; and the GSP as a permanent element in the international trading system.

Negotiations on GSP by ASEAN lent itself suitable to the mechanism of dialogues, namely bilaterally between the GSP "donor" and the GSP "recipient." The GSP, it should be noted, involves a unilateral concession by the donor, and its GSP donor introduces its own unique preference scheme.

ASEAN as a group, seems to have gained some concessions from its negotiations on GSP with the US, the EC, and Japan, such as in the application of CRO for ASEAN as well as in the expansion of product coverage.⁸

However, specific studies evaluating the effects of GSP, such as of the EC-GSP on ASEAN products,⁹ or on a more global scope,¹⁰ suggest the quite meagre trade benefits of the GSP. Thus, ASEAN's emphasis on improvements in the GSP, which has become an important feature in the agenda of its dialogues, does not seem all that meaningful.

Access through preferential treatment can be obtained by way of the MFN rate negotiated under the auspices of GATT. For example, Malaysia's exports of tin, rubber and palm oil have been accorded zero duty under the MFN rate.

In summing up, it does seem that under the present circumstances ASEAN need to worry most with the ever increasing protectionist tendencies in its major trading partners. Protectionism has been felt already by the ASEAN countries in their exports, notably in textile and garments, but also in tapioca and tobacco, to the EC.

⁸For a more elaborate discussion, see Hadi Soesastro, "Future ASEAN-US Economic Relations: Perspectives on Strategic Planning," in *ASEAN External Economic Relations* (Singapore: Chopmen Publishers, for the Economic Society of Singapore, 1982).

⁹See for example the study by Rolf J. Langhammer, "ASEAN Manufactured Exports in the EC Markets: An Empirical Assessment of Common and National Tariff and Non-Tariff Barriers Confronting Them," in Narongchai Akrasanee and Hans Christoph Rieger (eds.), *op. cit.*

¹⁰See Tracy Murray, *Trade Preferences for Developing Countries* (New York: John Wiley & Sons, 1977).

A major issue of wide-ranging implications to ASEAN, which now has come to the fore more pronouncedly in its negotiations with the industrial countries, in the so-called "graduation" of the ASEAN countries. The graduation, if accepted, implicitly means ineligibility for a variety of preferences or facilities, including the GSP. Thus, automatically moves the ASEAN countries from GSP rates to MFN rates. For a number of reasons, including political ones, ASEAN strongly rejects the graduation concept. Nonetheless, ASEAN needs to consider the US proposal for the introduction of a preferential rate, which is an intermediate rate between the GSP rate and the MFN rate, which is meant to be applied to countries which have graduated to a higher stage of development.

The various stop-gap measures, while negotiable, definitely remain to be wearisome. Many trade issues encounter in the operations of the international trading system today may only be the symptoms of more fundamental problems of the world economy today. Thus, trade issues cannot be isolated from other economic (and socio-political) problems in the monetary, fiscal, and investment fields which are faced by the world economy, especially by many industrial countries and in the relations among them.

In the dialogues with third countries, ASEAN always present a set of issues, covering trade, development, investment, and in other areas of co-operation. ASEAN is well advised to present those issues in a more systematically thought-out package. For sectoral approaches may no longer suffice.

There still is great uncertainty as to whether the world economy will soon come out of the recession. Opposing sign are still present. Many trade problems may automatically recede with a rigorous recovery of the world economy. However, prolonged recession will likely lead to a collapse of the international trading system.

ASEAN should be prepared for a worst-case scenario. It could be left on its own in an international environment of great disarray. But it may find some softening cushion by participating in the creation of some form of a broader regional arrangement in order to sustain the dynamism which still prevails in the Asia-Pacific region. At least in mind, if not in actuality yet, ASEAN should confront this issue and to try to formulate the various options in the most clear fashion. A broader regional focus in ASEAN's economic policies and strategies need not be in conflict with its global interest. Rather, such an additional focus could strengthen its participation in any global negotiations and global arrangements.

Appendix 1

RATIOS OF EXPORTS AND IMPORTS TO GDP OF ASEAN COUNTRIES (per cent)

	Exports					Imports				
	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
Indonesia	14.6	21.9	24.6	22.3	27.4	17.1	19.9	21.4	20.4	22.1
Malaysia	38.4	39.4	44.6	47.1	51.7	34.3	36.3	38.8	35.6	40.3
Philippines	13.9	16.5	15.8	14.4	15.2	17.0	19.1	23.1	21.2	22.3
Singapore	78.7	91.9	106.6	122.5	153.6	124.6	134.1	153.5	160.4	192.3
Thailand	12.2	15.7	17.2	17.9	18.8	19.1	20.6	22.5	22.9	25.7

Source: IMF, *International Financial Statistics*, Supplement on Trade Statistics, Supplement Series, No. 4, 1982.

Appendix 2

PRINCIPAL COMMODITY EXPORTS OF ASEAN COUNTRIES (per cent of total exports)

	1966-70 av.	1970-72 av.	1972-74 av.	1974-76 av.	1976-78 av.	1978-80 av.
<i>Indonesia</i>						
Petroleum	38.4	45.8	57.2	71.7	67.1	59.8
Jungle wood	6.1 ^a	11.5	13.3	8.6	8.8	9.4
Rubber	24.6	15.4	9.8	5.9	5.9	5.8
<i>Malaysia</i>						
Rubber	35.8	29.7	29.7	24.4	22.2	18.7
Palm oil	3.5	6.7	8.1	11.3	10.7	10.1
Tin	19.8	18.9	15.4	13.1	11.5	10.1
Logs and timber	15.3	17.0	18.0	14.9	16.1	15.5
Petroleum	3.5	5.4	5.0	9.6	13.2	18.1
<i>Philippines</i>						
Sugar	16.9	18.5	20.3	22.8	12.7	7.2
Coconut products	25.4	21.3	20.3	20.5	22.9	20.6
Copper	12.2	17.0	15.5	11.0	8.6	8.8
Wood	25.2	20.1	14.0	9.1	9.2	9.0
<i>Singapore</i>						
Petroleum products	24.8	24.6	26.5	32.3	29.1	30.7
Rubber	24.1	18.6	15.5	12.3	11.3	9.5
<i>Thailand</i>						
Rice	25.2	17.8	16.8	15.6	15.2	13.9
Corn	11.7	11.9	10.2	11.4	6.3	5.2
Sugar	0.4	2.8	5.6	10.5	8.9	3.8
Tapioca products	5.9	7.5	7.5	10.1	12.1	11.1
Rubber	14.2	11.5	10.9	8.8	9.0	10.1
Tin	11.1	9.2	6.6	5.4	6.7	8.6

Source: Same as Appendix 1.

Appendix 3

MARKET SHARES OF ASEAN COUNTRIES
(exports expressed as a per cent of area imports)

	Area Destination of Exports			
	World	Industrial Countries	Oil Exporting Countries	Non-Oil Developing Countries
<i>ASEAN</i>				
1970	2.05	1.66	0.95	3.24
1980	3.46	2.96	1.94	5.24
<i>Indonesia</i>				
1970	0.37	0.35	-	0.46
1980	1.14	1.24	0.04	1.09
<i>Malaysia</i>				
1970	0.57	0.42	0.33	0.97
1980	0.67	0.56	0.19	1.09
<i>Philippines</i>				
1970	0.35	0.42	0.02	0.12
1980	0.30	0.32	0.17	0.23
<i>Singapore</i>				
1970	0.52	0.28	0.22	1.34
1980	1.01	0.57	1.00	2.39
<i>Thailand</i>				
1970	0.24	0.19	0.38	0.35
1980	0.34	0.27	0.54	0.44

Source: Same as Appendix 1.

Vietnam and ASEAN: The Potential for Economic Intercourse

Douglas PIKE

The potential for ASEAN-Vietnamese/Indochinese economic intercourse in the foreseeable future is, to say the least, sharply limited, precisely how limited is suggested by this apocryphal exchange of telegrams between Hanoi and Moscow.

Telegram 1: ALL VIETNAM HUNGRY. SEND FOOD. (S.) Le Duan.

Telegram 2: SORRY NO EXTRA FOOD HERE. TIGHTEN BELTS. (S.) Yuri Andropov.

Telegram 3: SEND BELTS. (S.) Le Duan.

Even a casual examination of the Vietnam economic scene indicates trade potential is virtually nil. Vietnam has little to sell or exchange and almost no hard currency with which to purchase goods outright. The only economic intercourse it is prepared to engage in is to receive donated assistance and even this is complicated by its internal politics and membership in CEMA.

This bleak stratified condition will not last indefinitely. Indeed the argument made here is that significant change now appears to be underway in Hanoi which will markedly alter the present economic environment eventually and lead to greater external economic activity. However, for the foreseeable future -- which, in Southeast Asia, means perhaps the next two or three years -- Vietnam's economic stagnation will continue and that will militate against significant economic intercourse with ASEAN states.

Having dismissed the present, what of the future? Here there is greater promise. There can be no question but that fertile Vietnam, with its industrious

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and intelligent people and its relatively abundant resources, has potential for economic advancement. To realize this potentially and end its present poverty, it has but to make the right decisions at the Politburo level, install the correct economic institutions and let nature take its course. The point to be made here is that rectifying its plight is essentially a task Vietnam must accomplish by itself. Just as it is a fiction that Vietnam's economic troubles are attributable to American, Chinese and ASEAN embargoes or other punitive measures, so it also is a fiction that the panacea for Vietnam's economic ills is policy change by Washington, Beijing or ASEAN. As with most countries in economic trouble Hanoi has the lonely task of lifting itself by its own economic bootstraps. Only Vietnam can rescue itself from its present economic suffering.¹

BACKGROUND

After the fall of Saigon and the end of the Vietnam War, it was the common view in Asia, although less so in Southeast Asia that a period of protracted peace had finally arrived. Whatever else the conquest of Indochina by the communists meant to the peoples involved, it was held, at least they and their neighbors could look forward to a more tranquil era in which tensions would subside. End of the war might not usher in an "Era of good feeling" but at least the region would become somewhat more harmonious. For Hanoi the future was seen as especially bright. Communist Vietnam had inherited a twelve billion dollar windfall in the south, and was gripped by a new sense of destiny. Such was the view of most observers. Then suddenly, and in some ways inexplicably, the scene turned ugly, ominous. Vietnam was plunged into a sea of troubles at home and abroad that grew worse rather than better, and seemed to defy solution. A border war with Kampuchea bled and bled, despite Hanoi's apparently genuine efforts to seek settlement. Beijing began a nerve-racking game of brinkmanship which left Hanoi officials anxiety-ridden. Poverty deepened, shortages increased, corruption spread even to party cadres and others previously believed to be immune from such temptations. The embarrassing flow of refugees continued to increase to the mid-1978 peak of seven thousand a month, by then no longer chiefly urban middle-class but also large numbers of proletarian fishermen and farmers, anyone it seemed with access to a boat. Finally China, Vietnam's longtime "lip and teeth" ally, turned on it and Hanoi found itself fighting a two front war.

¹For an up-to-date general description of the Indochina-ASEAN scene see *Current History*, April 1983, on Southeast Asia, including the author's "Southeast Asia and the Superpowers: The Dust Settles." See also *Yearbook on International Communist Affairs: 1982*, Richard Staar, editor, Hoover Institution Press, Stanford, California.

This eight year unfolding drama, this sweep of history, was viewed from the ASEAN capitals, successively with dismay and alarm then disbelief and puzzlement, then with renewed self-confidence and now with something approaching smug superiority. It has been an amazing spectacle, this transformation of Vietnamese Communism from rogue elephant about to go on the rampage to dinosaur trapped in the tarpit. With disbelief the ASEAN states watched the Hanoi Politburo toss away almost casually the fruit of victory, for which so high a cost was paid, in a series of acts of self debilitation. Some give ASEAN credit for the turn of events, others put it down to joss. In truth most observers are still attempting to puzzle out this strange phenomenon of Hanoi's self induced postwar failure.

To some extent the Politburo's postwar expectations were excessive. The leaders suffered initially from over-optimism, a product of years of simplified thinking. Wartime problems abounded for them but issues were clear and elemental. Peace, on the other hand, presented equally as many problems, none of which was clearcut or given to simple solution. Further these leaders lacked experience, having known only one thing well, how to conduct protracted conflict. Yet another factor, perhaps deriving from inexperience, was a kind of innocence. What Hanoi has come to regard as the wine of victory turning sour, other nations see as the way of the world. Postwar Vietnam has not been unfairly treated, it has simply been introduced to the high stakes competition of international diplomacy and has discovered what others long have known, that it is a tough, cold world out there.

With respect to our chief interest here, Vietnam's external economic activity, almost all postwar economic indices first curved upward (immediately after the end of the war) and then plunged sharply downward. High point of Vietnamese expectation, it appears, was early 1978 and it has been all downhill since then.²

In early 1977 however the Hanoi economic scene was bullish. There was great commercial activity involving Hanoi officials and visiting capitalists from abroad. Japanese businessmen were a common sight, filling the hotels and fanning out over the countryside. Prospective investors from France and other West European countries, representing oil interests, manufacturing firms and banks, came and went, signaling that bold business ventures were underway.

²Hanoi reports at the end of 1982 suggested that food production in Vietnam may again be on the increase. Preliminary estimates indicated that the 1982 harvest was equal to the 1975-1976 crop year, which was the best postwar year crop. Vietnam's population since 1975 of course has increased, at nearly 3 per cent per year.

Official pronouncements at the time said Vietnam sought aid from capitalist countries, would even be willing to borrow money if acceptable credit arrangements could be made. Chief needs were listed as construction equipment and materials such as steel, cement and lumber; cranes and earth-moving equipment; transportation and communications systems and equipment; agricultural technology and means to mechanize agriculture; and oil exploitation and mineral extractive equipment and technical assistance.

Hanoi said it could offer, by way of trade goods: coal, phosphates, gold, tungsten, manganese and other metals and minerals and (eventually) oil; industrial crops (kenaf, ramie, rubber, seagrass matting); silk; rattan and bamboo furniture; fish and seafood (chiefly shrimp and lobster); citrus fruits; art objects; plus a whole range of agricultural products including coffee, tea, sesame, peanuts, beans, cinnamon, manioc, onions and garlic. A Foreign Investment Code was promulgated in April 1977 which provided for a choice of three ownership/management arrangements by foreign firms, either outright ownership, joint ownership with the Vietnamese government, or foreign investment in a Vietnamese firm and receiving a percentage of the production output.³ These developments seemed to add up to the prospect of a bright future in trade. Most of the best observers held bullish views.⁴

Then the economic light began to dim and the Vietnamese economy plummeted. Trouble developed in almost all sectors. There began a downturn in virtually every indicator, one that continue.⁵ At this writing the chief argument among Hanoi watchers is whether the economy is still declining or whether it has reached bottom and is now bumping along there. The message on the billboard outside of Hanoi airport -- All For Development -- remains, but the lettering has faded.

In sum, Hanoi's general economic association with ASEAN and other neighbors has been ambivalent for eight years. It has insisted that it seeks and wants important economic intercourse but has never actually done much to achieve this or, more correctly, has always allowed other factors to intrude and work against such a relationship.

³Officially the code is still in effect although only one or possibly two French firms have taken advantage of it. Various drafts of the code have appeared in print in the United States. See *The Asian Wall Street Journal*, March 4, 1977, and Bank of America version published by its branch in Hong Kong (April 1977). For discussion of the code see *Asian Finance*, February 15, 1977; *Euromoney*, July, 1977; and *Far Eastern Economic Review*, May 13, 1977.

⁴Louis E. Saubolle, "Vietnam: The New Trade Challenge," *Amcham*, journal of the American Chamber of Commerce in Hong Kong, May, 1977.

⁵First authoritative admission of serious economic trouble came from Premier Pham Van Dong in an interview by an Indonesian journalist in the Jakarta newspaper, *Merdeka*, December 12, 1978; also reported by *AFP* the same date.

On the diplomatic front, ASEAN-Hanoi relations largely have paralleled the economic association. Beginning in early 1977 Hanoi launched a concerted diplomatic campaign among its Southeast neighbors. It began dispatching a high level mission each year, usually in December, to solicit the region. Official statements, final communiques and other pronouncements make relatively clear the purposes and goals of this effort: first and primarily the purpose is courtship, to improve the spirit of the relationship or at the very least to prevent deterioration; the second purpose is to press the anti-Chinese theme, sometimes but not always accompanied by a corresponding pro-USSR theme; third, to solicit aid and trade; and fourth, in a few instances, to deal with specific issues, such as boundary lines with Indonesia or interned fishermen from Thailand. In 1977 Hanoi said it was willing to "cooperate" with ASEAN, the first time such a statement was recorded. It also embraced the idea of ASEAN as a neutral zone, although with the deterioration of Hanoi-Beijing relations increasingly took on anti-Chinese meaning.⁶

DOCTRINAL DIMENSION

To an extraordinary extent Vietnam's relations with ASEAN -- both diplomatic and economic -- have always been a product of Hanoi ideology. Even more than in other Marxist systems, doctrinal factors shape Hanoi's external behavior, and these factors must be examined or nothing of what has happened in the past eight years makes much sense.

24

The issue facing the Hanoi Politburo at the end of the Vietnam War was whether it wanted to begin full scale rehabilitation of its economy, North and South (and, if so, whether it wanted to put that goal ahead of others), or whether it was more concerned with social reconstruction of the conquered South, "breaking the machine" as it was termed. It said it wanted to do the first -- put economics in command -- but actually, perhaps in a sense unintentionally, consistently sought to do the second.

The Politburo of course recognized that the entire society faced massive economic problems, the result of years of neglect in the North and years of war in the South. There is every reason to believe that when the Politburo coined the slogan, *Economics in Command*, for the 1976 Fourth Party Congress it meant exactly that, economic need and economic considerations should take precedence in establishing postwar priorities. But the intention was never con-

⁶Chinese commentaries over the past several years consistently claim that the USSR has pressed Vietnam to join ASEAN, presumably in an observer status, for the purposes, says Beijing, of furthering USSR interests in Southeast Asia and, eventually destroying ASEAN.

verted into programs. The leadership insistently proclaimed, in speeches and other pronouncements, that nothing should stand in the way of quick economic development. But those same speeches treated any external economic activity that smacked of reciprocity as unhealthy dependence on outsiders. Once the China danger developed, any sort of economic interdependency was viewed as a threat to national sovereignty. The assertions and logic at times approached the ludicrous. The leadership would maintain that Vietnam was a totally self-sufficient system and needed no outside assistance (when in fact it was on the socialist world dole), while at the same time shamelessly castigating the United States, ASEAN, Japan, even the USSR, for their failure to contribute to the development of Vietnam. The anachronistic, even schizoid mind set of the old men of the Politburo shackled Vietnam in a political fundamentalism that virtually precluded any significant advance into the world.

Economic desires and ideological influences, in the first years of peace, created an enormously ambiguous scene in Indochina. Hanoi pressed on relentlessly emasculating the domestic trade scene in the South, driving out most of its skilled middle class, destroying even the social influences of capitalism if it could. At the same moment in Hanoi high officials, consulting with foreign bankers, hinted Vietnam planned to accept massive amounts of foreign investment and enticingly held out the promise of millions to be made in oil exploitation. Socio-economic decisions, however, in the North as well as in the South, belied this economic openness.

Abroad Vietnam made universal calls for diplomatic detente, yet rattled the sabre at Thailand when it extended the hand of friendship. Smiling diplomacy in Southeast Asia was and still is punctuated by insulting behavior. Particularly in dealing with ASEAN ideological considerations have dictated Hanoi thinking. The postwar pattern can best be described as messianic self-righteousness. Vietnamese diplomats routinely conduct negotiations in the region in an atmosphere of paranoid suspicion, jamming official positions into a tight ideological frame, turning even the most mundane exchange of economic views into a morality play. Wooden, inflexible positions are taken and clumsy attempts made to play one ASEAN country against another.

This behavior cannot simply be put down to inept diplomats or a government out of touch with reality. The Hanoi leadership in long years of power⁷ has learned well the value of implacableness in dealing with foreigners. Experience has taught that there is great benefit in treating foreign relations as protracted conflict, and conducting external economic negotiations as quasi-

⁷The Hanoi Politburo is probably the longest lived ruling group in the world; except for a few deaths it consists of essentially the original element formed in the 1940s.

military campaigns. Their behavior then is not an aberration but the manifestation of a highly effective proven strategy.

The central issue then with respect to ASEAN for the Hanoi leadership today turns on ideology. The Ideologues in the Politburo, who still constitute the preponderant influence (although just barely), continue to ask whether Hanoi can permanently accept the societies and states of ASEAN as they are now constituted or whether it is Vietnam's destiny and duty to push these systems to the left -- by funding guerilla wars or by other means -- until South-east Asia becomes a string of people's republics. Coupled to this ideological stand are strategic considerations, the idea that such a goal would also serve Vietnam's security interests.

In the late 1970s the Ideologues in the Politburo were joined by certain elements from the Vietnamese armed forces. For a period there was a movement, largely confined to Hanoi theoretical journals as far as can be determined, which advocated a combined economic-security strategy for Vietnam to employ throughout the region, even throughout the world. Its basic concept was that Vietnam would induce or pressure ASEAN countries to cut their capitalist/multinational ties in the name of regional harmony, holding out stability in exchange for an end to economic links with Western/Japanese capitalism. At the same time the Ideologues would offer a new rational doctrine which would synthesize nationalism and collectivism. The slogan for the region would become Hanoi's wartime slogan: *Forward Under the Banner of National Independence and Socialism*. The essence of the doctrine would be that no nation in the region could call itself truly independent⁸ while maintaining ties with external capitalism, nor even while proclaiming neutralism in the great struggle between capitalist and socialist world systems (although this would not mean a country had to choose any particular brand of marxism, or side with either of the two communist superpowers, the USSR or China). The rule would be: collectivism at home (or not, as a nation chose) and nationalism abroad. The one requirement would be that a nation be "non-aligned" economically, the greatest enemy being not capitalism but economic interdependence.

When Vietnam devolved into its time of troubles not much more was heard of this new strategy. Regardless of whether it ever did represent top leadership

⁸The semantically rooted issue of *freedom* vs. *independence* has long be clouded Hanoi-ASEAN relations. The ASEAN nations say they stand for *freedom*. Hanoi insists that what is at stake is not freedom but *independence*, that is, the ASEAN nations must become "independent," meaning free from interdependent relations with capitalist nations. Hanoi in effect defines *independence* as absence of interdependent economic ties, either capitalist or Marxist (if with China).

thinking, it now is in complete abeyance. Whether it remains there or is resurrected at some future date depends largely on who becomes Vietnam's future leaders.

POLICY DYNAMICS

Having considered what might be called the psychological dimension of the Hanoi-ASEAN axis we now turn to the more finite world of specific programs and policies.

Relations between the two, both diplomatic and economic, appear at this writing to be at a crossroads. The attitudes discussed above have not changed but objective conditions have, and policies of long standing are, for the first time, now seriously being called into question at the highest levels in Hanoi. This does not guarantee early change but certainly increases its probability.

A host of factors and forces are at work in the Vietnam decision making process and whatever changes come will be a product of their interaction. Although beyond the scope of this paper these factors should be noted briefly to provide context. They are:

- Changes in the factional balance of power at the Politburo level, largely a slow ongoing generational transfer of power. Recently this has triggered an invigorated and renewed campaign within the factions for constituency support.⁹
- Efforts by the entire Vietnam establishment to rectify some of the worst failures in external relations. To date this has largely been a tentative, stumbling effort, but nevertheless, a serious one. It seeks to establish a more workable arrangement in Kampuchea, to sound out possibilities for at least slightly improved relations with China and ASEAN countries (although at no cost to Hanoi) and to fix a more balanced or "distanced" relationship with Moscow.
- A diminution of social pathology in Vietnam and to lesser extent in Kampuchea. Suffering continues throughout Indochina but the trend line is down. Among other effects, this has lessened slightly the Politburo's sense of beleaguerment which, if it continues will ease somewhat the existing bunker mentality and create a sort of psychological stabilization within the leadership.

⁹What makes the Hanoi political scene so brittle is that most of the power is vested in the so-called "eirele of five" (Le Duan, Pham Van Dong, Truong Chinh, Le Duc Tho and Pham Hung). The departure of any of these would seriously disrupt the present collective leadership; departure of two or more almost certainly would engender a major power struggle.

- A series of recent, disparate tactical moves by Hanoi both within Indochina and externally in the region. These have been gestures of reasonableness directed at Kampuchea, China, Thailand and even the United States. Purpose and motive of these overtures are variously interpreted as opportunism, Hanoi misperception of opposition weakness, an effort to force short-term concessions from antagonists, or a genuine effort to alter and improve the present condition.
- Developments and possible changes at the transnational level, the most important being the new round of discussions between the USSR and China about various outstanding issues between them (one of the knottiest being Vietnam itself).
- Finally, developments within the Vietnamese economic sector, which is our chief concern here.

For several years now something of a great debate has raged in Hanoi -- little known or appreciated abroad although that makes it no less significant -- one that permeates all levels of the society and often dominates day to day State and Party activity.

In part this Great Debate is factional infighting endemic to all Sinic political systems. In part it is a doctrinal struggle within the Party and thus carries with it important career implications for upper level Party cadres. And in part it is a concerted apolitical effort by all to find workable solutions to finite economic problems. It is many things therefore, but its essence is economic. It is the unresolved -- or more correctly, yet to be resolved -- issue of the proper formula or "model" or comprehensive policy that will, first, solve Vietnam's many pressing short run economic problems and second and even more importantly, put it on the road to fundamental economic development or "nation building." In practical manifestation what is involved is agricultural policy, since in Vietnam the "economy" and the "agricultural sector" are virtually synonymous. More precisely, it is the search for a coherent, workable, politically acceptable means of rapid economic development that will also "solve the grain problem."

The cutting edge of the Great Debate thus is economic -- and it is being fought out almost entirely on the level of economic policy -- but it does reflect broader more fundamental matters involving the proper philosophical approach to the future. This arose for the first time in 1975 in the wake of military victory when the Politburo had genuine choice in moving into the postwar era. One choice was to call on the spirit that won the war, characterized by mystical Party tradition, by mythic PAVN and Viet Cong heroism, and by the indomitable flawless Politburo leadership, and to use this spirit to

meet the future. Another choice was to break with the heritage of the war, diverge from tradition, and seek to innovate. The choice was between *status quo* solutions to problems and the use of fresh approaches and new techniques to what clearly were to be new kinds of problems. Perhaps the options were never clearly stated within the Politburo but there was choice to be made, no easy choice, even now viewed in retrospect. In any event, *status quo* won. The outcome was made more likely by the fact that Hanoi had been victorious in war. Societies emerging from the traumatic experience of defeat -- militarist Japan and Nazi Germany are recent examples -- have less difficulty in starting anew and can more easily escape the centripetal influences of the traditional past. Even so, other Marxist societies have managed to break with their own tradition, China for instance, and perhaps Poland. But in Hanoi, the dilemma of postwar leadership was resolved in favor of old wine for the new bottle.

Discussion and consideration of how Vietnam should best advance into its economic future arose as a policy matter in late 1975, although not as the Great Debate which began much later. At the time the Party seemed to be operating on the basis of a series of unexamined assumptions. Marx, as amended by Lenin, Stalin, Mao and others, had scientifically determined the manner in which economic progress was to be achieved, and while the formula was perhaps only dimly understood even by those within the Politburo, it apparently did not occur to any of these leaders to question its applicability to Vietnam. Presumption that it would work, rather than rigorous examination, was the first of many grievous errors on the economic front which the Politburo would make.

Reality quickly outpaced dogma. By the time Vietnam's postwar economic development strategy was officially enunciated in detail -- at the Fourth Party Congress in December 1976 -- Party theoreticians writing in Party journals already were making it clear that the unexamined assumptions on which the dogma rested were inadequate. They had concluded that even if Vietnam confined itself to Orthodox Marxist thought, still there were choices to be made among various models which suggested themselves. The dispute within the Party which emerged at this time was seen by outside observers as competition between Soviet and Chinese models for solving economic problems, but was never seen in such crude terms nor so regarded by Hanoi theoreticians. It was not the quality of the anti-marketism inherent in both models -- which incidentally Hanoi theoreticians had never embraced with the fervor that its two socialist big brothers earlier had done -- rather it was that neither system seemed to meet Vietnam's needs and particularly did not seem appropriate for the overriding need to "solve the grain problem."

Thus, without clear guidance from the Fourth Congress onward, Vietnam has stumbled and wandered in search of a viable doctrinally acceptable eco-

conomic formula. Economic stagnation soon developed and defied all remedies, most of which were of the quick fix variety and even few of these were permitted to run a full test course. An intensively implemented program would be suddenly abandoned and followed by a period of drift, after which would come lengthy, noisy recriminations and perhaps major shifts of personnel from ministerial level to commune. Then the cycle would begin again. Through it all the Great Debate raged how best to get the economic machine in gear so as to rescue Vietnam from economic stagnation.

By the early 1980s progress had been made. Certain policies found inadequate had been firmly ruled out. There was a clearer agreement on definition of the problem. It has now come down to two options, here labeled Orthodox Marxism vs. Developmental Marxism.¹⁰ These two doctrines have counterparts in the political realm -- in the *bung di* or faction bashing that constitutes day-to-day political infighting at the upper Party level -- here labeled the Ideologists vs. the Pragmatists.

The theorizers both among the Orthodox Marxists and the Developmental Marxists (this also extends to their counterparts, the Ideologists and the Pragmatists) agree that what is central to all is that Vietnam must "solve its grain problem." Once Vietnam is able to feed itself it will then have an economic base on which to build. It can then develop a viable domestic trade system, expand into light and (if it wishes) heavy industrial production, provide its people with the necessities of life and some luxuries, and develop profitable trade and sources of hard currency abroad (such as through exploitation of its petroleum resources). Success on the farm -- or the commune if collectivization is required -- is the first mandatory requirement in solving the grain problem (generally defined as five tons of paddy rice per hectare as a nation-wide average).

Probably both camps also would concede -- although only the Developmental Marxists and the Pragmatists would openly state -- that no socialist country is an adequate model for Vietnam. There appears to be a genuine awareness, as evidenced by what is *not* said on the subject in Hanoi theoretical journals,¹¹ that no socialist country has ever been able to solve its grain problem and that those which have come the closest have done so by embracing capitalist devices and incentives on the farm while labeling them something else.

The nuances of this Great Debate, and the permutations of the factional struggle between the Ideologues and Pragmatists are far beyond the scope of

¹⁰This is detailed in the author's "Vietnamese Communism: Past, Present and Future," a paper presented at Fifth World Media Conference, Seoul, Korea, October 6, 1982.

¹¹*Ibid.*

this article. Suffice it here to draw three general conclusions which seem valid as of this writing: that the issue between the Orthodox Marxists and the Developmental Marxists remains in doubt, that the balance of strength between the Ideologues and the Pragmatists is now more or less equal, and that the tide presently runs in favor of the Developmental Marxists and the Pragmatists.

The one certainty in the present sea of contingency is that Vietnam's condition is dynamic. Gone is the smug assurance of the past, the unquestioned assumption that the Politburo is omniscient and infallible. The forces of tradition, although still well entrenched, are being challenged from within for the first time. That in itself is a major change in the Hanoi scene.

ASEAN CHOICE

The ASEAN heritage and present condition, unlike Vietnam's, is relatively clear and well established requiring no detailed analysis here. Regional history in general has been characterized by an end to colonialism; a rise of nationalist sentiment now somewhat diffused or reshaped through experience; by introduction of various forms of self government that tend toward corporate authoritarianism; by experimentation with the notion of international non-alignment, now probably a spent force, although some would argue this; and by the remarkable growth of the historical force called regionalism. The ASEAN nations have been buffeted by great internal change and social pathology. All in the region have experienced guerilla war. All to varying degrees have undergone internal social change, urbanization, and break-up of previously existing social and political arrangements and economic systems. The ravaging effect of this appears to be diminishing and, of course, not all change is necessarily bad, although it always is disruptive. Most markedly perhaps, the ASEAN states have been economically successful. They have achieved between six and eleven per cent average annual growth rate in GNP and are the only group of nations in which the real GNP is doubling every seven to twelve years.¹²

On the geopolitical front, the ASEAN countries have about ended the initial post Vietnam War "dust settling" stage. Communist victory in Indo-

¹²It is to be noted however that within this scene is a distinct pattern of differing levels of economic development and social progress. The rural areas get less than a proportionate share of investment and central government support. The inequality income gap is widening rather than narrowing. In some countries -- Philippines and Indonesia -- the per capita caloric intake in rural areas has actually declined in the past decade. This trend will be exacerbated by population growth -- the region's population is expected to double in the next 25 years.

china, despite the loose rhetoric by many in the region during the war, was not anticipated. When it came it produced an enormous shock and was followed by a brief period of paralyzing fear and anticipatory dread. Then came a sorting out time. A new balance of power in the region had been created overnight and understandably there was confusion and uncertainty in ASEAN capitals as to how best to deal with it. No one was sure of his own national interest. Beyond that, leaders did not know how best to approach Hanoi, whether through tough determined alliance or with forthcoming conciliation.

The central issue in geopolitical relations between ASEAN and Indochina is Kampuchea. Until a settlement is reached -- defined as a new Kampuchean governing structure acceptable to all -- Kampuchea will remain the eye of the destabilizing storm.

The past year has witnessed a number of Kampuchean developments, none unfortunately contributing much to the sort of solution required. Creation of the Coalition Government of Democratic Kampuchea (CGDK) further complicated matters by producing a more equitable condition of polarization, thus, entrenching the problem without advancing its solution. Hanoi made gestures, chiefly involving troop withdrawal, which to date remains only tokens. Outsiders -- ASEAN, China, the United States -- have not been particularly contributive, clinging to the comfortable but sterile position that nothing can be done until PAVN troops leave Kampuchea. Nor has the USSR, which has influence where it counts most -- in Hanoi -- demonstrated any states-manship or even enlightened pursuit of its own long-term interests with respect to Kampuchea.

Eventually there must be created some governing structure that includes equitable representation of the major elements in Kampuchea: the Khmer Rouge, Democratic Kampuchea third force and the Peoples Republic of Kampuchea. We are concerned here with institutions not individuals. There simply is no place in any future scheme for either Pol Pot or Heng Samrin for both are anathema, although for different reasons, to most Kampucheans. Probably other top figures will also have to go. PAVN troops must leave Kampuchea but not until a viable replacement government has been installed (the main reference here is to provincial, district and village government, not to cabinet level government in Phnom Penh). Few realize what a vastly challenging problem is involved.¹³ Vietnamese troops are not in Kampuchea for altruistic reasons but the PAVN military government there does represent such

¹³Dennis Duncanson has done some calculations on this and concludes that even with the best political settlement in Kampuchea it will remain almost a mathematical impossibility for the society to produce in the generation sufficient leaders, technicians, bureaucrats, so decimated is the middle class. See "Who Will Govern Cambodia," in *The World Today*, June 1982.

government as presently exists. Its precipitous withdrawal, with no new system in place would plunge Kampuchea into full anarchy (that is absence of government) in which the power struggle would devolve to the 13th century war lord level and suffering by the Kampuchean people would probably be worse than anything yet experienced.

The evolving choice for ASEAN -- in many ways a mirror image of that faced by Hanoi -- requires balancing geopolitical interests, such as Kampuchea, with economic considerations. To date ASEAN-Hanoi relations largely have turned on perceived imperatives of national security. Still waiting in the wings are non-security issues, not only trade and aid, but also technology transfer, resource allocation and raw material access. The questions involved in this choice are the more or less standard ones: what is the actual trade potential? In what ways are ASEAN and Indochinese economies compatible and in what ways competitive? Is there utility in ASEAN providing economic aid, technical assistance and economic advisors to Vietnam, and would these be accepted? What would be the pay-offs to ASEAN and how, on a cost accounting basis, would these compare with expending the same effort in another direction? What, in sum, are the likely gains and losses in dealing with Vietnam?

From ASEAN's viewpoint the matter divides into two sharply differentiated questions: whether a beneficial and profitable economic relationship with Indochina *is possible* and whether there *should be* such a relationship.

Two cautionary notes should be sounded at this point. The first is that the experience of outsiders dealing with Hanoi during the past eight years, government and private entrepreneurs alike, has been singularly unsuccessful for almost all and disastrous for some. No one has made much money in Vietnam and the foreign oil cartel lost a good deal. All programs have been marked by enormous waste, corruption, general disappointment and in some cases total failure. Certainly it is doubtful that Hanoi's present major supporter, the USSR, is getting its money's worth from its annual US\$3-5 billion investment.¹⁴

Second, also a demonstrable historical fact, no nation has ever been able to impose behavioral conditions on Vietnam through economic aid or trade. Neither in Hanoi today, nor in Saigon or Hanoi earlier, was any aid donor able to tie significant strings to its assistance. ASEAN leaders should guard against the temptation to believe they can succeed where others have failed and can somehow use money as a carrot and stick to influence Vietnamese behavior.

¹⁴The spread is due to differing methods of determining dollar costs of Soviet made aid goods and military hardware. For discussion of Hanoi-Moscow economic relations see the author's, "A Voyage into Uncharted Waters," in *Far Eastern Economic Review*, June 11, 1982.

Assuming that eventually there *can* be profitable and mutually beneficial ASEAN-Vietnam economic relations -- at least barter trade, but possibly broader intercourse involving low interest loans, technical assistance and economic advisors -- the question still remains: is it in ASEAN's collective national interest that this be arranged? The question is part of a much broader one: what kind of Indochina do the ASEAN states wish to see develop in the next decade? It is a stark choice of how to tame the rogue elephant.

One choice is clear and unequivocal -- what might be called the China option -- and that is to have no economic relations. This thesis holds that Hanoi leaders understand and respond to only one kind of influence, militant pressure, and consistently misinterpret any other approach as weakness. Thus, Vietnam must be "bled" -- militarily in Kampuchea, economically within Vietnam so far as possible, and in any other way. Hanoi's troubles must not be ameliorated but exacerbated. Far from attempting to induce distance between Vietnam and the USSR every effort should be made to drive the two even closer together on the grounds that eventually and intimate association will self destruct. Only when Hanoi leaders can take no more, or a vastly changed set of Politburo members appears on the scene, can Vietnam's neighbors think of rapprochement.

Some carry this argument even further and maintain it should be a permanent ASEAN response, holding that strengthening of Vietnam economically is counter to ASEAN's interests. Augmented trade relations, according to this argument, will help end the present Vietnamese economic malaise and thus remove an important restraint on Hanoi imperialist dreams of Southeast Asia. Once Vietnam becomes economically strong, regardless of change of leaders in Hanoi, it will dream of hegemonistic ventures in Thailand and beyond. ASEAN's best hope for peace and security then is a permanently debilitated Indochina.

Standing against this argument and against keeping Vietnam economically weak and isolated is what might be called the linkage thesis. It argues, first, that it would be impossible for ASEAN, China and others even if acting in concert to perpetuate indefinitely Hanoi's present condition of economic stagnation and failure since it largely is a self-inflicted wound which Hanoi's leaders (present or future) will eventually see is healed, a development beyond the control of outsiders.

The chief argument, however, is that while extensive and possibly integrated economic relations with a Vietnam that grows strong indeed can pose a danger for the nations of the region, it is less risky than a condition in which Hanoi has no incentive for peace at all. Far from attempting to shut Hanoi

out of economic intercourse, it is argued, ASEAN and others should co-opt it economically. They should create a matrix of economic associations with many separate strands of mutual benefit so that Hanoi becomes unable to pursue those policies -- such as external military ventures -- that are inimical to ASEAN interests. Vietnam could and should be trapped by economic interdependency.

Such is the fateful choice which ASEAN will be obliged to make, not today, but in the future when Vietnam has begun to recover its economic health.

CONCLUSIONS

Several general conclusions suggest themselves from the above discussion and analysis.

First, from both Hanoi and ASEAN viewpoints -- although for differing reasons -- the question of future economic intercourse is intricately bound up with national security and other geopolitical factors and cannot be separated in the making of policy. Trade and aid policies cannot be determined simply on their own inherent merits.

Second, while risky for the region, probably it is best that Vietnam come out into the world, diplomatically, economically, psychologically; it should be encouraged to do so and its efforts facilitated. Whatever else, this will serve to bolster the more moderate or reasonable factions and forces in Hanoi. Further, the region will remain in an unhealthy destabilized condition as long as Hanoi is isolated and beleaguered.

Third, probably we can expect significant change fairly soon in present Hanoi policies. This will be the product of the ongoing generational change of leadership and the widespread perception of policy failure throughout the upper levels of the Party structure. The change could be abrupt and sudden but more likely will it be evolutionary, at a reasonably rapid pace once it begins. The process can be encouraged and facilitated by outsiders, but only to a sharply limited degree.

Fourth, all parties in the region should seek and think in terms of a comprehensive settlement of major regional issues, either in the forum of an international conference or by private arrangements. The goals would be:

- To establish a new governing arrangement in Kampuchea acceptable to all major Khmer elements (defined as those who, if not included, have the abili-

- ty to frustrate such a settlement); also acceptable to outsiders with a primary vested interest, i.e., Vietnam, China and ASEAN (especially Thailand).
- To fix the nature of the future Indochinese political structure, involving Vietnam, Laos and Kampuchea, acceptable to Hanoi and tolerable to China. This probably would be confederal arrangement standing somewhere between the Federation of Indochina which China asserts is Hanoi's present goal and the "special relationship" of the past, once the Hanoi position but now unacceptable to it. This question of federated/confederated Indochina must be faced if the region is ever to be stabilized. It need not be settled now in a comprehensive way, but it must be circumnavigated and general mutually acceptable positions staked out.
 - To set Vietnam and China on the road to rapprochement addressing the major issues of contention, i.e., Hanoi's overly intimate relationship with the USSR, its intrusiveness in Kampuchea, its mistreatment of ethnic Chinese in Vietnam (the Beijing grievances), and the cold war and ever present threat of hot war by China against Vietnam (Hanoi's major grievance against Beijing).
 - To fix a new and somewhat less intimate, more delimited, relationship between the USSR and Vietnam/Indochina. This would, of course, require Moscow's participation/cooperation, but probably would be less difficult to arrange than most observers believe.

These are the dimensions of the challenge. They may well prove to be unobtainable -- not all problems have solutions -- but despite our ingrained pessimism, they represent the direction that all participants in the Southeast Asia drama should take, the goals toward which we should aspire.

What is Indonesia's Foreign Policy?

Indonesia's Foreign Policy and Its Recent Implementation (Mixed in English and Indonesian: *Politik Luar Negeri Indonesia dan Pelaksanaannya Dewasa Ini*) by Mochtar Kusumaatmadja, edited by Eddy Damian and Budiono Kusumohamidjojo, Bandung (Indonesia), Alumni, 1983, xii + 353 pp. This review article is written by A.R. Sutopo. A.R. Sutopo is a staff member of the Department of International Affairs, CSIS.

Indonesia's foreign policy is designated as "independent and active" and is believed to be the best way in which it pursues its ideals and attains its national goals in the world. Subjective and objective conditions limit the implementation of its commitment to its ideals and objectives. Under the New Order government Indonesia's foreign policy has been pursued to serve more national development than global commitments. The emphasis of national development has since been on economic reconstruction and development.

Apart from the simplicity of the declaratory nature of independent and active policy, one rarely finds an analysis that examines the subject thoroughly in the light of its basic commitment to economic development, especially one written by an Indonesian. To be sure, much has

been written on Indonesia's foreign policy but mostly not in a thorough, coherent and scholarly fashion. Apologies often offered by the writers for not so dealing with the subject are a manifestation of such a shortcoming.

The appearance of the book by Mochtar Kusumaatmadja under review is unfortunately not an exception. With the title *Politik Luar Negeri Indonesia dan Pelaksanaannya Dewasa Ini*, however, it deserves the attention of those who are interested in studying Indonesia's foreign policy not only because it is written by an Indonesian but also because the author is the present Indonesia's Foreign Minister --since 1978. Moreover, a Foreign Minister's public analyses or speeches can be used, to a large degree, not only as a promotion of his image but also a reflection of his country's viewpoint. As stated in the introduction, the book --which is a compilation of Mr. Kusumaatmadja's writings, ideas, and speeches-- is meant to present a clearer view of Indonesia's foreign policy and its recent implementation (p. vi).

Mochtar Kusumaatmadja, however, does not claim that the book is an analytical and systematic presentation of Indonesia's foreign policy during his tenure of office. This may be due to his position as well as the nature of the book as a compilation of writings, ideas, and speeches. It gives orientation of Indonesian perceptions of, and responses to, various international problems. But Indonesia's foreign policy and its implementations can be more than that indicated by the table of contents. Moreover, the editors' uncertainty about the capacity of Mr. Kusumaatmadja in this regard (p. viii) as to whether he is an intellectual or a Foreign Minister, only further complicates the

matter and may create a wrong impression if one examines the book carefully.

As far as it is understood in the context of the author's position, the book is full of basic ideas about Indonesia's perceptions of, and responses to, various problems of world affairs and refers to certain major areas in which Indonesia is directly involved. In particular, the book concerns the author's first term of office in the Soeharto's cabinet. It focuses on various aspects of the implementation of Indonesia's foreign policy from 1978 to early 1983.

The book is divided into two parts. Part I consists of chapters on the principle of Indonesia's foreign policy with some analysis of certain periods of world affairs and how Indonesia responds to such situations. Part II consists of chapters dealing with various international affairs in light of Indonesia's policies toward them. It is said that this part is the application of the principle of Indonesia's foreign policy to cope with real situations.

Most interesting is Part I, particularly the chapter in which the author argues that the principle of Indonesia's foreign policy has never changed since the establishment of the Republic (pp. 5-6). He maintains here, however that its implementation could change over time, depending on the prevailing situations and on the purposes that it is to serve -- i.e., national development with particular emphasis on economic development; national and regional stability and security as prerequisites for national development; and the protection of territorial integrity.

But it should be noted here that the discussion is less on principle than on such questions as the African-Asian Conference and the Non-alignment Movement (Part II, Chapter 2). This may create the impression that Indonesia's foreign policy serves the Bandung Principles more than the more urgent national interest.

Having dealt with policy principle the rest of the book focuses on some dimensions of world affairs as objective conditions. Here Indonesia deals with real situations, and a great deal of the book is devoted to the role of

ASEAN in Indonesia's foreign policy, its policies on the Cambodia conflict, North-South dialogue, non-aligned movement, the Middle East, Afghanistan, Namibia and the apartheid policy of South Africa, decolonization, human rights, the new international economic order, international trade, economic and technical cooperation among the developing countries, and arms control and disarmament. It shows the consistency of Indonesia's position on these aspects of international affairs.

There seems to be some degree of redundancy in dealing with these aspects throughout the book. Several chapters contain the same problems and express the same spirit. As a result, most of the chapters and subheadings do not reflect the contents. Indeed, one would argue that the book is a compilation of political statements rather than a review of Indonesia's foreign policy in spite of their significance in international relations.

Over-emphasis has been given to multilateral forums in which Indonesia participates to pursue its foreign policy with less regard to Indonesia's bilateral relations (Part I, Chapter 2 is an exception). In consequence, it is difficult for a layman to understand Indonesia's relations even with its major partners in the context of serving Indonesian national interest defined in terms of national development. It is one of the major deficiencies of a book intended to promote a better understanding of Indonesia's recent foreign policy.

The problem is that more portion has been devoted to questions far away from home than those related to Indonesia's immediate interests. Consequently, one cannot readily conclude from the passages that Indonesian foreign policy serves the national interest defined in terms of economic development. It is hard to know, for instance, the importance of Japan or the other members of the IGGI to Indonesia. It is not clear whether the implementation of Indonesia's foreign policy has been influenced by these bilateral relations. It is equally not clear how Indonesia in the spirit of its independent and active policy, deals with the socialist countries.

However, Mochtar Kusumaatmadja deals with some of Indonesia's immediate concerns, such as the "East Timor question", human rights in Indonesia, separatist movements, and the Indochinese refugees. But these are not fundamental questions in Indonesia's foreign policy exercise. Nonetheless, the book is beneficial in the sense that it presents a number of political statements and speeches to which the public often has no ready access. As a collection of documents it has the credit for providing "facts" of Indonesia's foreign policy.

GOLKAR: Functional Group Politics in Indonesia

GOLKAR: Functional Group Politics in Indonesia, by Julian M. Boileau, Jakarta, CSIS, 1983, vi + 140. This review article is written by M. Bambang Walgito. M. Bambang Walgito is a staff member of the Department of Socio-Cultural Affairs, CSIS.

The book seeks to analyze and appreciate the growth and development of Golkar in Indonesia's political life. There are various views on Golkar. Some consider it to be the political machine of the elite in power. Others view it as the Army's political party, etc., etc. However, it is fact that so far, Golkar has been beneficial to Indonesia. It has made an important contribution to political stability. Its stress on unity and harmony is very necessary in a society as fragmented as Indonesia.

The author observes a number of factors which have contributed to Golkar's success against the older and more established political parties, and which have turned it into a powerful sociopolitical force with a dominant role in the nation's political life.

In some respects Golkar can be considered as a modern organization. Yet the basis of its strength stems from largely traditional rela-

tionships of power and authority. Therefore it is interesting to note the author's historical perspective, particularly in describing the impact of modernization on traditional society. He traces the birth of Golkar back to 1918, long before Indonesia gained its independence. This is perhaps a moot point. In its report to the First General Conference of Golkar held in Surabaya in 1973, for instance, the DPP Golkar (Golkar's Central Executive Board) emphasizes that the Proclamation of Independence is the spirit of Golkar since it inspires it with the same ideals, i.e., the establishment of a just and prosperous society based on Pancasila and the 1945 Constitution.

Indonesia is a society in transition in which modern and traditional values exist side by side. On the one hand, as a result of modernization, old loyalties to kin and traditional leaders are broken and replaced by a new awareness and mass mobilization. The newly mobilized forces have demanded for a share in the benefit of modernization and for more participation in the political life. On the other hand, it seems that Indonesia is still traditional in nature. Therefore to be successful any organization should contain the elements of both modern and traditional values. It applies also to Golkar. Though modern organization, it is built from above and based on a downward flow of commands.

Chapter 2 describes Indonesia's debt to Soekarno. It is a historical fact that the late President Soekarno succeeded in mobilizing mass participation, but he was unable to control it effectively. He faced many great problems in achieving unity and effective, coherent political system, particularly in the early fifties. The Western style of political participation did not work for a variety of reasons. It was Soekarno himself that had conceived of the idea of gathering together all functional groups throughout the country to participate in Indonesia's political system. His ultimate aim at that time was to use them as a system of representation for Indonesian socialism. He had initially favoured the creation of a state party, whose representatives should be selected from the entire body of the people, i.e. from the functionally defined groups without differen-

tiation in religious beliefs. He expounded his concept after his visit to several socialist countries. He was convinced that Indonesian democracy was a "work" democracy. Thus all functional groups had a right to a major role.

As described in Chapter 2, Soekarno's idea of using functional groups to replace political parties was not realized. His idea was used by both the ABRI (Indonesian Armed Forces) and the PKI (Indonesian Communist Party) to strengthen their own positions and expand their roles in the political life. Such situation forced Soekarno to balance the PKI and the ABRI. This chapter tells us also how at that time Soekarno's government was increasingly unable to reconcile the conflicting forces, particularly the forces favouring the creation of a theocratic state based on Islam and those favouring the maintenance of secular state based on Pancasila.

The ABRI found in Soekarno's idea of establishing functional groups a good way of preventing conflicts. They began to initiate moves aimed at bringing mass organizations under their own control. First of all they attempted to gain control over their various veteran organizations which were already affiliated to different political forces. In the period of 1957-1965, the ABRI, particularly the Army, moved to establish three functional groups, i.e. SOKSI, Kosgoro, MKGR, all of which were headed by high ranking officers. Each was active in a distinct field. Kosgoro, for instance, was active in health, religion, and food production. The activities of MKGR covered religious, economic, social, educational and cultural fields, while SOKSI, which originated from the state-run enterprises, formed many organizations in all state enterprises. It sought to confront the growing power of the PKI particularly its activities through SOBSI, its labour organization.

The attempts to create a unified functional group organization to offset the PKI's dominance in the political life bore fruit in 1964. On October 24 Sekber Golkar was formed. But while the Sekber Golkar was still a young and ineffective organization, PKI staged a coup d'état. In the aftermath of the coup attempt

General Soeharto came to power and established a New Order Government. In 1968 he became officially the President of the Republic of Indonesia. He undertook to dismantle the political structures inherited from Soekarno. He forged Sekber Golkar into an organization capable of competing effectively with the political parties. The government presented the people with continuous messages stressing development, harmony, and a just and prosperous society.

Before 1970, as noted by Mashashi Nishihara in his book *Golkar and the Indonesian Elections of 1971* (New York: Cornell University, Ithaca, 1972), p. 17, Golkar had only little influence outside Jakarta. It was a party built from above and enjoyed the ABRI's favour, although on paper it had provincial branches throughout the country. But after making a long and careful preparation and after launching a saturation campaign, in the 1971 General Elections Sekber Golkar succeeded in capturing 62.8 per cent of the total vote. The political parties were unable to resist the Golkar onslaught. They had been weakened considerably.

As soon as the General Elections were over, Sekber Golkar underwent an organizational change. Apart from changing its name into Golkar, it also made efforts to unify and consolidate itself. It became better organized. The civil servants were organized in the Korpri since they had to be loyal only to the government. They were not allowed to be members of any political parties, although according to the author, many Korpri leaders in West Java were known as sympathizers of PPP (United Development Party).

Golkar won again the 1977 Elections because in its campaign it presented itself as the government party. It was identified with the government. A number of ministers campaigned for Golkar, which was presented as a new political organization that was able to introduce new values and orientation and therefore was responsible for the success of the implementation of the development programmes.

In order to be more deeply rooted among the people, the civilian groups within Golkar

attempted not to rely too much on the support of ABRI and Golkar. Supporting the AMS' (Siliwangi Younger Generation's) ideas the author notes that being over dependent on ABRI and Golkar, Golkar was more and more bureaucratically oriented and was unresponsive to pressures from below. Therefore Golkar should reorganize itself and ABRI should also reorientate its political thinking. What has happened, however, cannot be changed rapidly. Probably it will take about ten years or longer.

So far ABRI has used Golkar as a base to expand its influence. Since the beginning Golkar has been created to serve ABRI rule in a society that is stable, ordered and harmonious where political conflicts are minimized for the greater good of working together to achieve goals (p. 97). It has to neutralize politics. As noted by the author, ABRI shows no desire to develop Golkar into a true political party for channelling ideas and men upwards to the leadership. In other words, Golkar has remained closely allied with ABRI both structurally and ideologically.

Although the book is written before the 1982 Elections, where Golkar won 62 per cent of the total vote, the author's prediction on the future prospect of Golkar is accurate. Golkar will remain as it is now. It is unrealistic to expect that in the foreseeable future it will become an effective body for mass participation since the increase of mass support - not only in the eve of elections - will increase also the demands for a greater share of the benefits of economic development. The functions of Golkar will continue primarily to participate in the General Elections. It will still be used to absorb and restrain popular demands on the Government. Golkar is just the mechanism through which the government makes demands and increases its control on the people.

The time has arrived, however, for Golkar to provide adequate channels for popular participation and make some necessary organizational changes that will make it more responsive to, and dependent on, mass support. Golkar's victory in three Elections (in 1971, 1977 and 1982) shows us the growing popular support and rising hope for its real role. It is in

this perspective that this book is good to read since man can always learn from history to face his future. Otherwise, as noted by the author in his last chapter, Golkar will be caught in a vicious circle, of the relationship between popular participation and political stability.

A Reflection on Development

A Reflection on Development, (In Indonesian: *Renungan tentang Pembangunan*) by Soedjono Hoemardani, Jakarta, CSIS, 1981, viii + 108 pp. This review article by Bambang Prajitno is translated from *Suara Karya*, 12 January 1982.

Very often development is misapprehended as modernization or Westernization. It is assumed that anything originating from the West must be modern. This misapprehension has been straightened out by Soedjono Hoemardani in this book. He said in this book that in the concept of development is implied the notion of updating, ameliorating and straightening things out. Efforts to make progress by modernizing and renewing are certainly implied in the concept. The term modern does not only imply its technical but also its ethical sense, which should be in accord with the nation's cultural value. Soedjono even said that development should be directed toward striving after the good, which is really good. In Javanese it would sound as "*becik kang sayektine becik*."

We carry out development because we want to face a better future, better than the present or the past, materially as well as spiritually, especially in the context of National development in Indonesia, which is based on Pancasila (the five principles), with the Indonesian man as the actor and the goal of development. National development in Indonesia is carried out by and for the whole Indonesian man. The Broad Guidelines of State Policy (GBHN) stated that national development encompasses

the total development of the Indonesian man and the development of the whole Indonesian society. This principal thought entails some consequences which are, among other things, those implied in the principle of a balanced and harmonious attitude in shaping the man of development.

It is also mentioned in the book that national development has a strategic aim and that it still lays stress on giving priority to the economic field, aside from the socio-cultural and political fields which are inseparable from the whole national development.

National development in the socio-cultural field is an integrated part of the whole national development, which is essentially the total development of the Indonesian man and that of the whole Indonesian society (p. 24). Economic development is geared to a planned system, in which the aim is to sustain the economic structure with a strong agriculture.

The essence of national development as a means of materializing national ideals, such as those incorporated in the Preamble of the 1945 Constitution, is implemented through a cultural approach, an approach which envisages the Indonesian man and society as a total entity. Hence development in the socio-cultural field should be based on a humanitarian strategy as an attempt to improve the living standard of the Indonesian man. The ultimate goal of development in this field is the creation of a socio-cultural condition which enables the Indonesian man to develop all potentials optimally in order to become self-reliant and responsible in implementing his state and nationhood (p. 27).

In this book Soedjono Hoemardani is aware that development aside from producing useful and positive results, will also bring about problems which may in turn become disastrous for society. Therefore development should be supervised. Any problem that might automatically emerge as the inevitable effect of development can still be moderated and humanized. The execution of this supervision not only calls for a set of rules but more than that it needs a trustworthy person to abide by

the rules. To this end a man of quality is needed, who has the knowledge of both the supervised field and the role of development itself in human existence and national resilience (p. 59).

The book consists only of three chapters, of which the concluding chapter deals with a view on spiritual development. Our country, which is based on the philosophy of Pancasila is not a theocratic state nor is it based on any religion or any form of belief in the One and Only God. Nevertheless, imbued with spiritual background and rules incorporated in Pancasila, the 1945 Constitution, and the Broad Guidelines of State Policy, Indonesia gives an honourable place to religion and belief in the One and Only God. Consequently arrangement should be made with regard to the state duties toward religion and the belief in the One and Only God and vice versa.

Another interesting point to note is the subchapter on man's life and his relation to God, which is implied in the meaning of Javanese letters. In this part it is said that the relation between man and God since the outset of man's life, will reach a perfect stage when a union is formed between God and man, man and God, as is the case with the union of body and soul. This is a perfect situation, in which man is depicted as the body of God's incarnation (p. 107).

The Malacca-Singapore Straits

The Malacca-Singapore Straits: The Suez of South-East Asia, by Yaacov Vertzberger, London, IISS, 1982, 28 pp. This review article is written by Kirdi Dipoyudo. Kirdi Dipoyudo is a staff member of the Department of International Affairs, CSIS.

One of the major components of the new international regime for the oceans as contained in the Convention of the Law of the Sea which is the outcome of the international Con-

ference on the Law of the Seas (1974-1982) is the right of passage through and above straits used for international navigation. As some of these straits - those connecting two seas or oceans - are of major strategic, economic and political importance to the coastal states as well as to the superpowers and other maritime powers, the relevant regime emerged only after years of thorough bargaining between coastal states and maritime powers. On this issue the United States and the Soviet Union found themselves on the same side opposing the position of the coastal states demanding the right to regulate passage of merchant and, particularly, warships and warplanes. In this study Yaacov Vertzberger attempts to analyze the position of the three coastal states in relation to the vital Straits of Malacca and Singapore, commonly referred to as the Malacca Straits.

After a brief outline of the historical background, the author successively examines the strategic importance of the Malacca Straits, the political motives of Indonesia and Malaysia, their security concerns, their economic interests, Singapore's dilemma and the plan to build a canal or pipeline across the Kra Isthmus in Thailand to solve the issue concerning those straits. Indonesia and Malaysia are those most affected and, at the same time, most likely to have major influence on the short -- and long-term developments.

In outlining the historical background, the author highlights the important meeting in November 1971 between Indonesia, Malaysia and Singapore to consider the status of the straits and passage through them. The political motives, security concerns and economic considerations of Indonesia and Malaysia are bound to the effective control of the Malacca Straits. Singapore was not as worried as its two bigger neighbours about the presence of the superpowers in the area, but was interested in free passage through the straits and their deepening to enable it to become a harbour for the largest tankers. The result of the meeting was the Declaration of 16 November 1971 containing a full agreement between Indonesia and Malaysia and a partial agreement between them and Singapore. They agreed that the safety of navigation through the Malacca Straits is

the responsibility of the three coastal states; that all three nations should cooperate towards this end; that a coordinating body be established which would comprise only these three countries; that the problem of the safety of navigation and the question of internationalization of the straits are two separate issues. On the status of the Straits, however, the coastal states were divided. Indonesia and Malaysia agreed that the Malacca Straits are not international straits while fully recognizing their use for international shipping in accordance with the principle of innocent passage. This position was strongly opposed by the superpowers and other maritime powers which insisted on freedom of navigation.

The author goes on to stress the strategic importance of the Straits due to the fact that they form a major sea route from Southeast Asia and the Far East to Europe and vice versa and to the increasing rivalry for control and influence over the region west and east of the Straits as sources of oil and other essential raw materials. Free passage through the Straits is a factor of importance in all operational military planning of the superpowers. Both of them have naval and airpower in the region and use the straits regularly.

Then the author examines the political motives of Indonesia and Malaysia behind the policy they have adopted. Both of them moved towards a more active foreign policy which also called for more active role in Southeast Asia and Asia in general. The first step was to declare Southeast Asia as a Zone of Peace, Freedom and Neutrality on 27 November 1971. In achieving this goal, the two countries imposed limitation on passage of warships through the straits as they were unwilling to turn the Indian Ocean into an area of superpower rivalry. Moreover, Indonesia saw the legal status of the Malacca Straits in terms of the archipelago principle which means that all the waterways between the islands of the Indonesian archipelago are part of her territory. Therefore, she claimed the right to grant or restrict passage.

The author rightly states that the straits are of major importance to the security of In-

Indonesia and Malaysia both at domestic and regional levels. Their security is bound to the effective control of the straits and limitation of the passage of warships. Nevertheless, as the Indian Ocean in the global strategic interests of the superpowers increased in importance, they realized that they would be unable to enforce non-passage of naval ships. For this reason, finally they accepted the formula of "transit passage" in straits used for international navigation in exchange for the right to establish laws and regulations to ensure the safety of navigation and to avoid pollution.

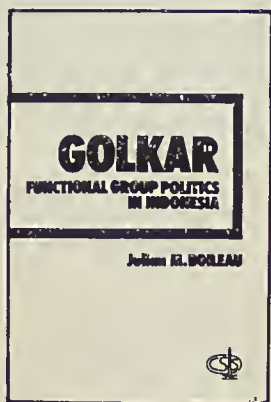
Further, the author analyzes the economic interests of the littoral states which stood behind the joint statement of 1971. The interests of Indonesia and Malaysia converged, but were not identical with those of Singapore. There was the fear that a maritime collision due to the congestion of the Straits --some 140-150 ships pass through every day out of which at least 25 per cent are tankers-- might involve a major oil spill from a damaged tanker, threatening to pollute the coast of both countries and to exterminate fish in the straits. Another economic concern relates to oil and tin resources found in the continental shelf. The coastal states wanted to assure complete control of these resources.

As regards Singapore, this country was in a dilemma. On the one hand, it wanted to safeguard its economy which is built on the freedom of the seas. On the other hand, it cannot ignore the danger of pollution or the safety of navigation, and was thus inclined to agree with Indonesia and Malaysia that those who use the straits agree to observe certain rules and regulations to ensure safety and avoid collision. There was, however, no agreement on the question of declaring the Malacca Straits as territorial waters. Still, Singapore was unwilling

to oppose it in an explicit way as it did not want to harm the growing improvement in its relation with its neighbours. This explains its cautious declaration that it "took note" of their position on this question. Thus, Singapore's economic interests and political interest in maintaining good relations with them were delicately balanced.

The last part of this study examines plans to solve the complex problems concerning the Malacca Straits by means of a bypass through a canal or pipeline across the Kra Isthmus of Thailand. These plans have never, to date, come close to being realized although they have often been raised in discussions.

Though this study had been made before the Law of the Sea Conference came to a definitive binding agreement and it is not as comprehensive as the work of Michael Leifer on the Malacca Straits it cites a few times, it can be recommended, especially to those who have little time or opportunity to read the latter. It enables one to get a clear insight into the conflicting and converging interests in this area and its links with the global power struggle, on the one hand, and the political manoeuvrability of small and medium-sized states versus the superpowers, on the other. In this instance, Indonesia and Malaysia, in the Law of the Sea Conference, bargained their hardline position on the regime of passage through straits used for international shipping for concessions by the maritime powers. They asserted their claim to sovereignty over the Malacca Straits and to the right to establish laws and regulations to ensure the safety of passage and prevent pollution. They also maintained their position on the issue of passage through archipelagic waters. In addition, for those who want to know more about the issue of the Malacca Straits, this study provides useful references.



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